Back to the Future -

A Monastic Perspective on Corporate Governance

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The authors are most grateful for the helpful support of Abbot Berchtold Müller and Prior Guido Muff (Monastery Engelberg), Padre Gregor Jäggi and Reto Krismer (Monastery Einsiedeln), Padre Thaddäus Schreiber (Monastery Ettal), Abbot Benno Malfér (Monastery Muri-Gries), Wolfgang Gehra (Monastery Plankstetten), and for the valuable comments of Mathias Erlei (Clausthal University of Technology), Donald C. Hambrick (Pennsylvania State University), Martin Held (Protestant Academy Tutzing), Alfred Kieser (University of Mannheim) and Kent D. Miller (Michigan State University). We also thank Robert Findlow and Isabel Ellenberger for improving the English.
Abstract

The financial crisis is a crisis of governance as well. In search of answers and solutions many scholars and practitioners recommend improved output control, i.e. better external incentives or even stricter regulations. Monasteries demonstrate that alternative models may be more suitable to enhance sustainable governance quality and to reduce agency problems. In the long history of monasteries, some abbots and monks were known to line their own pockets and some monasteries were undisciplined. Monasteries developed special systems to combat these excesses thus ensuring their survival over centuries. We study these features from an economic perspective. Derived from an analysis of the Benedictine monastery of Engelberg we offer three improvements of applied governance designed to reduce agency problems. First, monastic governance emphasizes clan control rather than output control. Second, monasteries demonstrate that organizations can prevent agency problems by complementing external discipline with internal behavioral incentives, such as value systems and voice. Third, organization members who make firm-specific investments are motivated by broad participation rights and co-determination.

JEL-Classification: D73, G3, N3, Z12

Keywords: Corporate Governance, Financial Crisis, Psychological Economics, Monasteries, Principal Agency Theory, Benedictine Order
Introduction

Religion and religiousness will play an extraordinary role in the future, despite the unremitting prognosis of fading into insignificance. The secularisation thesis - in the last century widely perceived as an irrevocable fact – has these days become highly disputed (e.g. Gäbler 2005; Iannaconne 1998). The recognition of the continued relevance of religion has reawakened interest in this subject. The economic perspective allows new insights into the religious aspects of life. Not only is it worth paying attention to such concepts as faith, spirituality and religion in western organizations, but it is also worth taking a look at the religious organizations themselves. Throughout the centuries religious institutions were a decisive factor in the development of the economic system. Therefore, reflecting on the past may be highly relevant when analysing the current economic system.

This article analyzes the governance of the Benedictine Order to gain new insights into good governance. Monasteries can be viewed as pioneers of governance and have had a major impact on the development of the economy in Europe. On the one hand, the great economic success of numerous monasteries in medieval times serves as an example of efficient organization of commercial enterprises. On the other hand, the creation of wealth led to the temptation of misuse (Kieser 1987). As a reaction sophisticated governance systems were established within religious orders. The aim of our research is to gain deeper general insights into the functioning of governance structures, processes, and incentives.

Deeper general insights into approved governance structures are important for the field of corporate governance. Today in particular this field is facing fundamental changes. Not only has the corporate sector been plagued by huge scandals related to excessive manager compensation and fraudulent bookkeeping (Osterloh/Frey 2004), but additionally the financial crisis made apparent the fact that the existing governance structures in stock corporations cannot prevent excessive risk taking and the abuse of power (Rost/Osterloh 2009; Zingales 2009). Agency theory – the dominant theoretical approach within the corporate governance literature – is not able to explain these recent incidents in a conclusive way. The theory suggests that external control mechanisms prevent such scandals by linking the interests of the owners with the interests of the CEOs, i.e. by acting on behalf of absent firm owners (Fama/Jensen 1983; Jensen/Meckling 1976; Jensen/Murphy 1990a; Jensen/Murphy 1990b). However, in contrast to the theories’ predictions pay-for-performance, independent directors, or outsiders as CEOs have not prevented the scandals or the financial crisis. Using the conventional homo oeconomicus as a theoretical basis may be beneficial when modeling the
effects of changes in incentives. At the same time agency theory tends to confine its attention
to a narrow and empirically questionable view of human motivation (see Frey 1999). History
shows that the exclusive use of external measures may be ineffective in addressing
governance problems successfully (Grant 2003). These weaknesses in current corporate
governance practice suggest that it may be useful to approach these issues from alternative
perspectives (Benz/Frey 2007).

The paper proceeds as follows: the next two paragraphs analyze the degree to which the
Benedictine governance system is able to solve agency problems. For this purpose, we first
present a case study of the Benedictine abbey of Engelberg to provide a detailed portrait of
the monastic governance system. In a second step, we provide quantitative evidence of the
efficiency of the monastic corporate governance. In the third section we explain the
Benedictine governance system in detail and connect these findings with a more fundamental
perspective on the economic debate about good governance.

A historical perspective: the example of the Benedictine abbey Engelberg

In choosing the abbey of Engelberg for the analysis, we selected a representative Benedictine
monastery. The monastery is located at the foot of the mountain Titlis in central Switzerland
and is surrounded by the Alps. Today the monastery accommodates about forty padres and
brothers. Founded in 1120 the monastery exhibits typical Benedictine traits, such as a long
tradition in educational institutions, a famous scriptorium and an acclaimed library. Until the
French Revolution, each abbot of Engelberg was the spiritual as well as the profane ruler of
the valley. The history of Engelberg is well documented and therefore provides a good data
basis for an empirical analysis. We obtained data from the Helvetia Sacra (1986) and the local
history of Engelberg (Heer 1975). These historical chronicles have an excellent reputation for
their extensive documentation of the monastic institutions in Switzerland.

Agency problems in Engelberg

The monastery of Engelberg did not remain unscathed from dishonest or incapable abbots.
The history of the monastery in Engelberg shows many examples of inadequacies and
fraudulent behaviour. Already at the beginning of the 12th century typical principal agency
problems occur. However, the excesses of the first three unworthy abbots are only sketchily
documented. Abbot Johannes Kummer (1421-29/1431-35) is the first well documented
example of luxury consumption. The records show him to be talented but disingenuous, living
a lavish lifestyle at the expense of his monastery. Even more reprehensible is the reputation of
the abbot Johann Strin (1442-1450), who wasted the fortune of his monastery, spent more time in Lucerne freely associating with women than in his monastery. Strin is described as “vermin” and as an unqualified steward of his community. Abbot Ulrich Stalder (1478-89) is a third example. He has been judged as lazy and careless. Besides selfish consumption, history provides other examples of poor behaviour. For example some abbots infiltrated the monastery for political reasons (Johann Ambühl 1450-58) or were greedy for power (Benedikt Keller 1619-29). Additionally, there are numerous examples of good intentioned, but nonetheless incompetent and overburdened leaders. A contemporary wrote about Andreas Herrsch (1592-1600), that he was lacking in „wisdom, insight, resoluteness” (Heer 1975; 197). Others are described as being too soft (Rudolf Kaufmann 1435-41), melancholic or anxious (Maurus Rinderli 1724-1730). Also to be taken into consideration are external factors such as political pressures or the plague, which had an extraordinary impact on the monastery. The requirements for an abbot in Engelberg in the 16th were considerably higher than in the following centuries.

History shows that such shortcomings and failures of abbots had serious consequences, sometimes even threatening the existence of the monastery. Engelberg, as an outlying monastery in the mountains, financed itself mainly through tenancy and pastoral care. In the short term, the sale of a piece of land or the bailment of property could guarantee the payment of debts. In the long term however, a dissipation of monastic goods, extracting its means of existence, will threaten the stability of a monastery. The serious consequences of such misbehaviour are demonstrated by several closures of Benedictine monasteries in Germany (Germania Benedictina 1970, 1975, 1999), but also by indications from Engelberg. The monastery was confronted with its possible demise on several occasions. For example in the 15th century the level of the accumulated debt had increased to an alarming extent. In 1488 under the incompetent abbot Ulrich Stalder, the people from the valley revolted against the abbey.

**Governance mechanism of Engelberg**

This section illustrates governance measurements which came into existence to restrict the misconduct of abbots in Engelberg. Without doubt the most obvious institution to guarantee a honourable behaviour was the selection of qualified abbots. The history of Engelberg demonstrates that the greater part of “good” abbots was democratically elected through the convent (although admittedly, up to the last century without participation of the brothers). Beyond these elections, the chronicle of Gall Heer (1975) shows that the community of
Engelberg had decision rights in other areas, especially within economic issues, and could discipline abbots and their officials. These decision rights of the convent needed to be accepted by the abbots. For example, abbot Jakob Suter (1576-83) caused serious discontent in his community by making decisions without the approval of the monks (e.g. the sale of a property). By doing this he not only ruined his reputation but also complicated his tenure massively. Despite the co-determination there existed selection and socialization tools to discipline abbots. In the first instance candidates had to live in the community temporarily, often in limited numbers. The socialisation manifests itself in the education of young monks before becoming a full member respectively in the probation in selected activities which are important for the monastic work and life. Finally, external institutions took appropriate action if necessary. Monasteries relied on the jurisdiction of the congregation (Benedikt Keller 1619-29) and the influence of the Holy See (for example a sharp condemnation from Pope Innozenz II in the 12th century). In summary, the example of Engelberg shows that monasteries have a range of governance mechanisms in order to prevent the abuse of power. The efficiency of these governance mechanisms is examined in the next section.

Are the Benedictines capable of solving their agency problems?

The next paragraph empirically investigates whether Benedictine monasteries developed efficient corporate governance mechanisms over the course of time to contend with poorly performing abbots and their exercise of uncontrolled discretion. Even though certain episodes produce qualitative evidence that in specific cases monastic governance is working, we try to prove the general serviceability of the Benedictine system with different indicators and in a quantitative manner. In the following we analyze the efficiency of Benedictine corporate governance, first through the example of one monastery and second on the level of the whole order. Through these different perspectives an accurate picture of the monastic governance should become evident.

Analysis on the level of a monastery

For our analysis on the monastery level we again choose the monastery of Engelberg. In particular the abbots and their well documented biographies play the key role in our analysis. Three indicators seem appropriate when evaluating the success of the corporate governance system of Engelberg. First, the mean tenure of “good” and “bad” abbots is examined. Second, the performance record of self-determined or heteronomous abbots is analysed. Third, we investigate the internal selection and socialisation processes of these leaders. In accordance
with our main hypothesis, suggesting that the monastic corporate governance system prevents agency problems, we will test the following propositions:

**P1.** In monasteries the system of dismissal is efficient. Therefore the tenure of poorly performing abbots should be shorter than that of competent abbots.

**P2.** In monasteries external intervention such as the manipulation of the abbot election undermines internal governance. Therefore, monasteries operating under such conditions should see increased number of poor abbots.

**P3.** In monasteries selection and socialization processes are important for good governance. Therefore insiders should be better abbots than outsiders. Further, the pre-election performance of an abbot should be a good indicator for his post-election performance.

To differentiate between “good” and “poor” abbots, we searched the historical biographies for relevant references. Words and phrases such as ‘incompetent’, ‘dissipation of commodities’, ‘not up to his job’ or ‘irritating’ indicate a poor performance. Phrases such as ‘exemplary’, ‘energetic’, ‘outstanding’ suggest a good leader. Functions and tasks within the umbrella organizations give further evidence of a successful tenure of an abbot. Our dependent indicators can be directly deduced from the chronicles. Appendix 1 shows the data set, table 1 the results of the analysis.

The first proposition is confirmed by strong evidence. While good abbots have an average tenure of 19.44 years, poor abbots show an average tenure of only 7.54 years. This difference is highly significant (F=17.70***). Thus, poor monastic leaders are not able to install themselves at the top of the monastery, even though they are essentially elected for life. The monastic structures facilitate the dismissal of poor abbots. One of the most obvious instruments is external visitation, i.e. the regular monitoring of the monastery by the umbrella organization to detect irregularities and to support monasteries in trouble. Further, in many cases internal pressure leads to the resignation of an abbot. This pressure is effective within monasteries because an abbot largely depends on the goodwill of his convent.

Table 1 shows that also the second proposition is validated by the data. It was suggested that external interventions like the manipulation of the abbot election undermines internal governance. The results first show that of the good abbots only 11% were not self-determined, i.e. their election was externally manipulated. In contrast, 67% of the abbots associated with agency problems were not self-determined. These differences are highly significant.
(F=15.67**). There are two possible explanations. First, external interventions disregard the preferences of the monks and thus ignore the fact that organizational members have the most comprehensive information about the skills, past behaviour, and talent of a contender. Second, externally appointed abbots cause distrust in the community (e.g. Andreas Herrsch 1592-1600). Overall, our analysis suggests that external influence on elections undermines good governance by promoting poorly performing abbots. Finally, proposition 3 postulates that selection and socialization processes are important for good monastic governance. The results first show that in Engelberg there had never been a capable abbot who originated from a holy order outside the Benedictines. In contrast, 20% of the poorly performing abbots came from other holy orders. Hence, if a candidate was not educated and socialised in the Benedictine Order, the occurrence of differences in ideologies and opinions resulted in governance problems. The difference, however, is not significant (F=2.05) because the prevailing number of leaders in Engelberg came from the Benedictine Order. Second, we find strong differences among abbots coming from an external Benedictine abbey and abbots coming from the monastery of Engelberg (F=7.87**). The results demonstrate that only 18% of the good abbots were outsiders. In contrast, 40% of the poor abbots were outsiders. One additional feature of outside-hires is however worth mentioning. The foreign abbots who gained acceptance and became good leaders had all been nominated either during the formative years of the monastery or in times of crises, e.g. when the plague decimated the convent. These results are consistent with the CEO literature by indicating that in some situations outside elections make sense (Rost et al. 2008). Third, we searched the historical chronicles for activities and responsibilities of an abbot, which he practiced before his election, i.e. as a common monk. The career steps of a future abbot are well documented and constitute a good indicator for the managerial abilities of an executive. The results support our proposition by showing that only 6% of the competent abbots had a poor or inconspicuous track record while 79% of the poorly performing abbots had a poor or inconspicuous track record (F=29.99**). The findings indicate that the internal selection and socialisation principles in Engelberg work quite well, even though not all less competent abbots are identifiable by their past performance.

Table 1 about here

The history of Engelberg suggests that a poor abbot causes a poor successor. Thus, it seems considerably more difficult to rescue a damaged monastery, than to govern a well guided institution. Of course, external influences such as the political situation, which can influence
the history of a community over decades, also play an important role. However, a look into
the neighbouring monasteries of Engelberg like Einsiedeln or Disentis shows that the
accumulations of poor abbots in Engelberg do not refer to a common historical background
(Einsiedeln 2009; Müller 1971).

Analysis on the level of the Order

While the case study of Engelberg gives insights into the history at the level of one specific
monastery, the results cannot necessarily be generalized. For this reason we additionally
present quantitative evidence on the efficiency of the Benedictine governance from a former
study. Within this study we collected data on all Benedictine abbeys that ever existed in
Baden-Württemberg, Bavaria and German speaking Switzerland (Rost et al. 2009). The
sample covered a total of 134 monasteries. Data for the analysis was obtained from historical
chronicles (Germania Benedictina 1970, Germania Benedictina 1975, Germania Benedictina
1999, Helvetia Sacra 1986) and the Website of the house of Bavarian history (2007).

The results of this quantitative analysis show that Benedictine monasteries have an average
lifetime of almost 500 years. This is a first indication of efficient governance in Benedictine
monasteries. Furthermore, table 1 shows the reasons for closures. The findings on the reasons
for closure indicate that only one quarter (26.5%) of the monasteries studied were unable to
survive due to agency problems. The vast majority of monastic houses were either closed due
to external institutional factors, or they still exist today. These results suggest that Benedictine
monasteries are extremely stable. On average, monasteries survived 460 years, which
suggests that agency problems in Benedictine monasteries are relatively minor.

Table 2 about here

In summary, the qualitative and quantitative analyses show that the Benedictines are capable
of adjusting their institutions with regard to agency problems. Benedictine monasteries
survived for centuries and seldom fall prey to mismanagement.

The governance System of the Benedictines

This section introduces the successful governance of the Benedictines in detail (Rost et al.
2009). We refer to current institutions. However, for all the mechanisms described historical
evidence exists. Although in the past governance was not as elaborate in every aspect, the
structures and processes are extraordinarily stable (Inauen/Frey 2008; Moulin 1965). The
Benedictine governance consists of three main pillars: The embeddedness of the monks in
common value systems, participation rights of the members and the integration in a hierarchy of the Order and the Catholic Church. Each of these pillars is explained in the following subsections.

**Embeddedness in common value systems**

While many other organizations establish controls and supervisory institutions in order to monitor decision making, monasteries apply common value systems in order to discuss possible solutions and come to beneficial conclusions (McGrath 2007). These value systems go far beyond ‘codes of best practice’ and affect the entire life of a monk. The Benedictine value system is based on three cornerstones: the Bible, the rule of St. Benedict and the tradition of a particular monastery. In order to implement these values, the Benedictines developed various selection and socialization practices.

**Selection.** Candidates for a monastic life go through a stringent selection process in order to ascertain their suitability. The selection process is more or less identical in every Benedictine monastery. There are four stages: Every candidate, independent of application credentials, is welcome to live in a monastery for a few months. During these months, the candidate learns a great deal about the value system of the Benedictines and has the opportunity to carefully consider his motives before becoming a full member. Thus, instead of merely pre-selecting employees, monasteries make use of self-selection. One year probation follows. During this year, the novice learns the background of the value system, the Holy Scripture and church law. Temporary profession follows, lasting three years; containing a monastic apprenticeship or the beginning of studies. The underlying reason for this is that individuals may change their minds. Only after passing through all these steps can then full membership, known as solemn profession, be celebrated. Solemn profession involves the unconditional commitment of both parties. For each padre and brother the convent, i.e. the religious community of a monastery, has to give its blessing (Schweizer Benediktinerkongregation 1986). Following the final oath to obey the Benedictine way of life, the new entrant becomes a full member of the monastic community and receives broad participation rights.

**Socialization.** To ensure successful living and working together, careful socialization and the formation of an organizational identity is crucial. The socialization process lasts a lifetime and encourages an internalized transfer of the overall value system. Values such as trust, hospitality, tradition or work as a vocation are central to the progress of the individual monk. Socialisation is realised through numerous ways: The Benedictines promote just and equal treatment in daily life in order to integrate new members. Being treated as an equal in a life
and work community facilitates the establishment of common values (Wenger/Snyder 2000). The Benedictines also use extensive learning programs, in which their codex and their knowledge are used to shape a common identity and facilitate the growth and development of all members (Reiber 2003). Monasteries have implemented other learning practices, such as daily readings at the communal dinner table. These readings address numerous topics, such as the Bible, politics, philosophy or the history of the Benedictines and the respective monastery.

**Members’ Voice**

The abbot occupies an extraordinary position within the monastery. He carries the main responsibility for spiritual and economic concerns, represents the monastery in external affairs, delegates duties and is in charge of the well-being of every friar. But unlike other institutions the monks themselves possess substantial participation rights and monitor the abbot and his officials (Schweizer Benediktinerkongregation 1986; St.Ottilien Benediktinerkongregation 2004).

**Participation.** The entire convent consists of padres and brothers with a solemn profession. Every one of these monks has equal rights and may vote in elections. The convent has four major tasks: First, the convent is responsible for decision-making in important business affairs, e.g. the acceptance of a novice as a full member or an expansion of the monastery through acquisition. Second, the convent democratically elects the abbot (recently, in some abbeys the tenure of an abbot has been restricted to 12 years rather than a lifetime) and employee representatives for the ‘advisory board’, i.e. the Consilium. Third, the convent evaluates whether a proposed prior (the vice ‘CEO’) is eligible. However, in order to make sure that the team in charge works in harmony, the prior is selected and nominated by the abbot. Fourth, today members of the Convent have the right to advance requests and to give opinions. The dialogue among the monks is encouraged (Eckert 2000).

**Monitoring.** Monasteries complement participation processes with internal monitoring processes. Similar to some stock corporations, monasteries have a two-tier board structure, i.e. there is a management board (all executive directors, i.e. the abbot and the officials) and a separate advisory board (some executive and some ‘non-executive’ directors, i.e. the Consilium). In contrast to e.g. stock corporations, the Consilium is a supervisory board counseling the management team. It only has the power to decide in occasional, specific cases. The members discuss contentious issues without having the final responsibility for major business decisions. The Consilium exclusively consists of insiders, i.e. elected members
of the convent (employee representatives) and nominated members of the management team (officials) (Schweizer Benediktinerkongregation 1986).

**Hierarchy**

The abbey of Engelberg is a typical example that shows that the internal control mechanisms of monasteries may sometimes fail. The external control of the Benedictines is hierarchically organized and consists of jurisdiction and periodical monitoring.

**Jurisdiction.** Benedictine monasteries belong to the Catholic Church, are governed by its laws, and depend on the Holy See. Besides church and constitutional law, the legal norms of the Congregation are binding for a particular monastery. The jurisdiction of the Congregation is the first judicial authority outside the monastery where disputes are settled. The Congregation supervises the election of abbots and organizes the ‘visitations’ of monasteries. They complement this law with their own statutes, the so-called Consuetudines (1991).

**Periodical monitoring.** In the Benedictine Order the subsidiary principle is applied. As the legal rules are very general with respect to economic issues, the so-called ‘visitation’ is the most important tool for disciplining the Convents. Every four to five years, delegates of the Congregation visit a community to evaluate the condition of the monastery. The visitation not only examines the economic situation of a monastery and its fields of activity, but also the spirit and the discipline of the community and their members, the personal relationships between monks and their superiors, and the possible abuse of authority (Schweizer Benediktinerkongregation 1986). In addition to auditing, the visitors make use of questionnaires and interviews to detect any problems or failures. They analyze processes in-depth, ask specific questions and refer to aspects, which pass unnoticed in the normal daily routine. However, the main function of ‘visitations’ is to induce reflection, and not to exercise control and discipline.\(^{viii}\)

**The Benedictine Governance: A different perspective**

If one compares Benedictine governance with the governance of non-profit organizations or of modern stock corporations, one immediately realizes the different priorities in these models. Three major differences are discernable: clan control rather than ex post evaluation concepts; internal control practices, such as selection or socialisation; and broad participation rights.

**Emphasizing clan control**
Performance evaluations and in particular output control have become standard procedure of the performance management in many organizations. Today these procedures are not only applied in profit-oriented firms but also in non-profit and governmental institutions. Authors refer to an “audit explosion” (Power 1994), leading to an “audit society” (Power 1997) and producing an evaluation industry (Muller-Camen/Salzgeber 2005). The Benedictines choose clan control to counteract the trend to only determine relevant performance criteria and to control them ex post. This strategy brings considerable advantages, in particular preventing the unfavourable outcomes created by incorrect incentives (Bebchuk/Fried 2004; Foss et al. 2006; Frey/Osterloh 2005; Frey/Osterloh 2006; Kerr 1975; Osterloh/Frey 2000).

In standard economics, e.g. the principal agency approach, it is assumed that performance measurement and performance pay will raise performance. Monastic governance addresses the securing of work motivation in a different way. Through careful selection and socialisation practices, a shared understanding of the rules is advanced and correct behaviour promoted (Fong/Tosi 2007). These processes are embedded in structures and rules, which facilitate the internalization of values. Instead of output controls, the convent examines the preconditions of contenders and configures the processes and practices within the monastery. These focal points in Benedictine governance are in line with managerial control theory (e.g. Eisenhardt 1985; Ouchi 1977, 1979; Thompson 1967).

The Benedictine control system empirically demonstrates that even though output control may be considered a “modern” system of quality management, this method can not successfully be applied everywhere as it is unfortunately being done today.

**Emphasizing internal control**

A second trend, reinforced by the financial crisis, is the call for rigorous standards and enhanced external incentives (Snider 2009). Against the claims for rigorous standards and enhanced external incentives, monastic governance places the emphasis on internal control, i.e. on governance carried out by the monasteries themselves (Rost et al. 2009). Internal control in the Benedictine monasteries can be divided into two main categories: internalized values and members’ voice. The emphasis of the Benedictines on implementing value systems, instead of using control and supervisory institutions, is in line with the assumptions of psychological economics, in particular with fairness-reciprocity theory (Dufwenberg/Kirchsteiger 2004; Falk et al. 2003; Rabin 1993) or social (dis)approval theory (e.g. Akerlof 1980; Fehr/Falk 2002).
Even though the Benedictines heavily rely on internal control this does not mean that external control is unimportant. Without providing for external incentives good governance is not ensured. The visitations and the jurisdiction of the congregation the Benedictine Order offer an additional deviating model. ‘Visitations’ not only help to control the books and the economic situation but also consider firm culture, i.e. the spirit and the discipline of the monks, the personal relationships between monks and their superiors, and investigate the possible abuse of authority. This form of external control does not reduce intrinsic motivation of the management or the employees. Crowding-out of intrinsic motivation only occurs if people perceive an external intervention as controlling and thus as reducing their self-determination (for an overview compare Deci et al. 1999; Frey/Jegen 2001).

**Emphasizing knowledge workers**

A third peculiarity consists in firm-specific investments of the members being satisfied with extensive participation rights. During a five year period of training, candidates attain the knowledge for their lifelong monastery life. To a large extent this knowledge is only pertinent to a monastic environment. Accordingly, hardly anyone invests more firm-specific than the padres and brothers do. In monasteries the monks are not compensated for their (lifelong) tenure through monetary rewards but by obtaining considerable voting rights and codetermination (Hirschman 1970). This provides strong incentives to invest in firm-specific know-how (Osterloh/Frey 2006). First, the monks are involved in decision making and thus are capable of shaping the future of their institution. Second, they have the power to discipline and supervise the monastery leaders. Insiders can control management more effectively because they are less dependent on the information provided by the executives.

However, not only in monastic institutions do members make firm-specific investments. For many economists it is indisputable that the key task of corporate governance is to generate, accumulate, transfer and protect valuable knowledge and capability (e.g. Foss/Foss 2000; Grandori/Kogut 2002; Grant 1996; Penrose 1959; Spender 1996; Teece et al. 1997). ‘Knowledge workers’ are essential to guarantee good firm performance.

**Limitations**

It can be argued that we present an idealized picture of an institution. Such an extreme way of life, as chosen by the Benedictine monks, can suffer serious drawbacks,\(^{15}\) which are not addressed in this paper. Without doubt a monastic life also has deficits in the area of governance. First, monasteries sometimes are hot spots for gossip and peer control, including lobbying and power games. Second, since monasteries build on strong and uniform value
systems, individuals not only increase their social identity with the group, but groups also become more cohesive (Tajfel 1981), which can lead to groupthink (Janis 1972; Janis 1982). Third, cohesive groups are more susceptible to expert power (Festinger 1954), which can lead to the support of dictatorship and the abuse of power (Coleman 1990). Such systems increase agency problems as they can result in blind trust and the abuse of dominant positions (Conger/Kanungo 1987). Fourth, the life long commitment to a monastery has to be considered. Strong commitment is desirable, but not in such an absolute way as in monastic institutions. While giving voice and developing loyalty, monasteries also build exit barriers. When exit costs are exorbitant, thus hindering people from leaving, negative outcomes, like discouragement, will occur (Hirschman 1970).

For these reasons, organizations relying on aspects of the monastic governance system have to balance the advantages and disadvantages of common value systems and commitment. On the one hand, value systems should be strong enough to select and socialize appropriate employees. On the other hand, value systems should be open enough to avoid dogmatism and unbalanced power, i.e. value systems must also honor new and challenging ideas.

**Conclusion**

The financial crisis is a crisis of governance as well. In search of answers and solutions many scholars and practitioners recommend improved output control, i.e. better external incentives or even stricter regulations. Monasteries show that alternative models may be more sustainable for enhancing governance quality and reducing agency problems. The Benedictine institutions offer three realignments of actual corporate governance practice.

First, for non-quantifiable, ambiguous outputs clan control, i.e. careful (ex ante) selection and socialization processes, presents a superior alternative to ex post evaluation and output control. Wrong incentives covering questionable performance criteria are a main reason for the governance failures of today, in particular in knowledge intensive work. The quality of knowledge intensive work, e.g. the work of CEOs, *is not* quantifiable. Second, monasteries demonstrate that organizations can prevent agency problems by complementing external discipline with internal behavioral incentives. Current governance systems disregard internal control, such as value systems and voice. These arrangements facilitate better control. Third, the Benedictines are specialists in encouraging firm-specific investments by giving appropriate incentives to their employees. Monasteries demonstrate that democratic elections of executives, internal monitoring processes, and employee representation on an advisory
board foster and protect firm-specific investments. Inside monitoring and co-determination not only actively pay attention to firm-specific knowledge but also promote the principle of checks and balances by reducing agency problems.

Summing up, the success of the Benedictine governance seems well worth considering. The Benedictine approaches have not only been found useful and its advancement suggested in the economic literature but have also already consequently been tested and executed over centuries. The Benedictines show how current corporate governance can be encouraged to go even beyond stricter regulations or improved external incentives. It is not our aim to turn the entire governance system inside out. However, to control for knowledge intensive work it might be useful for certain organizations to modify the monastic approach to their need and to put some of these aspects into practice.

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Tables and Figures

**Table 1.** Determinants of good and bad abbots

| Characteristics of the abbot                                      | Good abbot | Bad abbot | Total | N   | F-Value | Sig.  |
|------------------------------------------------------------------|------------|-----------|-------|-----|---------|-------|
| Tenure                                                           | 19.44      | 7.54      | 16.29 | 49  | 17.70   | .000  |
| Not self-determined election                                     | 10.71%     | 63.64%    | 25.64%| 39  | 15.67   | .000  |
| Abbot origin from another holy order                             | 0.00%      | 20.00%    | 4.65% | 43  | 2.05    | 160   |
| Abbot origin from an outside Benedictine monastery               | 18.18%     | 40.00%    | 23.26%| 43  | 7.87    | .008  |
| Bad Pre-election performance of abbot                            | 6.45%      | 70.00%    | 21.95%| 41  | 29.99   | .000  |

Note: All abbots from the monastery Engelberg in the time period 1120-2009.

**Table 2.** Survival and closure of monasteries (Rost et al. 2009)

| Reason for closures                                      | Number of Benedictine Monasteries | in % | Average lifetime in years | Year of the last event |
|----------------------------------------------------------|----------------------------------|------|---------------------------|------------------------|
| **No closure**                                           | 25                               | 17%  | 287                       | -                      |
| **Non agency problem related closures**                  |                                  |      |                           |                        |
| Voluntary closure                                        | 6                                | 4%   | 540                       | 1883                   |
| External institutional factors                            | 79                               | 53%  | 568                       | 1862                   |
|                                                           | 85                               | 57%  |                          |                        |
| **Agency problem related closures**                      |                                  |      |                           |                        |
| Mismanagement (incl. insolvency, relaxation of discipline and recruitment problems) | 20                               | 13%  | 387                       | 1862                   |
| Change into other organizational form                     | 11                               | 6%   | 313                       | 1763                   |
| Control failure                                          | 9                                | 7%   | 325                       | 1773                   |
|                                                           | 40                               | 26%  |                          | -                      |
| **Total closures**                                       | 125                              | 83%  |                          | -                      |
### Appendix

Table I. Analysis of the abbots in the monastery of Engelberg

| Abbot                  | Year of investiture | Year of resignation/death | Tenure | 1=Good abbot | 2=Poor abbot | (-)=missing |
|------------------------|---------------------|---------------------------|--------|--------------|--------------|-------------|
| Adelhelm               | 1120                | 1126                      | 6      | 1            |              |             |
| (Luitfrid)             | 1126                | 1143                      | 6      | 2            |              |             |
| (Welfo)                | 1143                | 1143                      | 6      | 2            |              |             |
| (Hesso)                | 1143                | 1143                      | 6      | 2            |              |             |
| Frowin                 | 1143                | 1178                      | 35     | 1            |              |             |
| Berchtold              | 1178                | 1197                      | 19     | 1            |              |             |
| Heinrich I.            | 1197                | 1223                      | 26     | 1            |              |             |
| Heinrich II.           | 1223                | 1241                      | 18     | 1            |              |             |
| Werner                 | 1241                | 1250                      | 9      | 1            |              |             |
| Walter von Iberg       | 1250                | 1267                      | 17     | 1            |              |             |
| Walter von Cham        | 1267                | 1276                      | 9      | 1            |              |             |
| Arnold von Will        | 1276                | 1296                      | 20     | 1            |              |             |
| Ulrich von Stansstad   | 1296                | 1298                      | 2      | -            |              |             |
| Rudolf Schertleib      | 1298                | 1317                      | 19     | 1            |              |             |
| Walter Amstutz         | 1317                | 1331                      | 14     | 1            |              |             |
| Wilhelm v. Wolfenschliessen | 1331           | 1347                      | 16     | -            |              |             |
| Heinrich von Sempach   | 1347                | 1359                      | 12     | 1            |              |             |
| Nikolaus von Wisserlen | 1359                | 1360                      | 1      | -            |              |             |
| Rudolf von Stühlingen  | 1360                | 1398                      | 38     | 1            |              |             |
| Walter Mier            | 1398                | 1420                      | 22     | 1            |              |             |
| Johann Kupferschmied   | 1420                | 1421                      | 1      | -            |              |             |
| Johann Kummer          | 1421                | 1433                      | 12     | 2            |              |             |
| Johann de Wida         | 1429                | 1431                      | 2      | -            |              |             |
| Rudolf Kaufmann        | 1435                | 1442                      | 7      | 2            |              |             |
| Johann Strin           | 1442                | 1450                      | 8      | 2            |              |             |
| Johann Ambühl          | 1450                | 1458                      | 8      | 2            |              |             |
| Heinrich Porter        | 1458                | 1505                      | 26     | -            |              |             |
| Ulrich Stalder         | 1478                | 1489                      | 11     | 2            |              |             |
| Nikolaus Gratis        | 1489                | 1490                      | 1      | -            |              |             |
| Johann Ethon           | 1490                | 1499                      | 9      | 2            |              |             |
| Barnabas Bürki         | 1505                | 1546                      | 41     | 1            |              |             |
| Johann Spörlein        | 1547                | 1548                      | 1      | -            |              |             |
| Bernhard Ernst         | 1548                | 1553                      | 5      | 1            |              |             |
| Jodoc Krämer           | 1553                | 1574                      | 21     | -            |              |             |
| Rudolf Gwicht          | 1574                | 1576                      | 2      | 1            |              |             |
| Jakob Suter            | 1576                | 1583                      | 7      | 1            |              |             |
| Gabriel Blattmann      | 1584                | 1592                      | 8      | 2            |              |             |
| Andreas Herrsch        | 1592                | 1600                      | 8      | 2            |              |             |
| Melchior Rizzi         | 1600                | 1603                      | 3      | 2            |              |             |
| Jakob Benedikt Sigerist| 1603                | 1619                      | 16     | 1            |              |             |
| Benedikt Keller        | 1619                | 1630                      | 11     | -            |              |             |
| Plazidus Knüttel       | 1630                | 1658                      | 28     | 1            |              |             |
| Ignaz Betschart        | 1658                | 1681                      | 23     | 1            |              |             |
| Gregor Fleischlin      | 1681                | 1686                      | 5      | 1            |              |             |
| Ignaz Burnott          | 1686                | 1693                      | 7      | 1            |              |             |
| Plazidus Hess          | 1693                | 1694                      | 1      | -            |              |             |
| Abbot               | I     | II    | III  | IV |
|---------------------|-------|-------|------|----|
| Joachim Albini      | 1694  | 1724  | 30   | 1  |
| Maurus Rinderli     | 1724  | 1730  | 6    | 2  |
| Emanuel Crivelli    | 1730  | 1749  | 19   | 1  |
| Maurus Zink         | 1749  | 1769  | 20   | 1  |
| Leodegar Salzmann   | 1769  | 1798  | 29   | 1  |
| Karl Stadler        | 1803  | 1822  | 19   | 1  |
| Eugen von Büren     | 1822  | 1851  | 29   | 1  |
| Plazidus Tanner     | 1851  | 1866  | 15   | 1  |
| Anselm Villiger     | 1866  | 1901  | 35   | 1  |
| Leodegar Scherer    | 1901  | 1914  | 13   | 1  |
| Basil Fellmann      | 1914  | 1929  | 15   | 1  |
| Bonaventura Egger   | 1929  | 1931  | 2    | -  |
| Leodegar Hunkeler   | 1931  | 1956  | 25   | 1  |
| Leonhard Bösch      | 1956  | 1988  | 32   | 1  |
| Berchtold Müller    | 1988  | 2009  | 21   | 1  |
Endnotes

\(^1\) For the emerging field of religious economics see e.g. Azzi/Ehrenberg 1975; Ekelund et al. 2006; Ferrero 2008; Held et al. 2007; Iannacconne 1998; McCleary/Barro 2006; Miller 2002; Stark/Finke 2000.

\(^a\) We use a broad term of corporate governance. In the following, corporate governance is understood to be the set of processes, customs, policies, laws and institutions affecting the way firms are directed, administered and controlled.

\(^{iii}\) For example, in 1916 the taxation of corporate profits and in 1919 the requirement to create profits for shareholders became a law. As a result simple book keeping developed into more complex accounting issues and a new challenge was created for managers to maximize profits for shareholders while at the same time reducing tax liability. These early rulings did not reduce agency-problems in stock corporations and ultimately ended with the stock market crash of 1929. Later, the 1933/34 Securities Act attempted to protect shareholders by regulating initial security offerings and secondary security trading, e.g. registration at the SEC, financial disclosure, audited initial and periodic financial statements, and prohibition of manipulative practices. Once again, the illusion of good corporate governance prevailed and ended with the stock market crash of 2001, a string of corporate implosions and scandals resulting in record bankruptcies and severance packages amounting to millions for executives (e.g. Bratton 2002). Fraud was accomplished through accounting misclassification (e.g. WorldCom), complex partnership arrangements (e.g. Enron) or inflating revenues (e.g. Global Crossing). In 2002 the Sarbanes-Oxley-Act was almost unanimously approved by Congress and aims to protect shareholders once again. As in the past the act focuses exclusively on external governance mechanisms. In fact, for modern stock corporations many of the suggested external incentives have led to new problems (Bebchuk/Fried 2004; Jensen et al. 2004; Stefani 2008). Performance-related executive compensation has contributed significantly to a lack of transparency in compensation policy and in some cases even to a loss of control through manipulation of incentives (Aboody/Kasznik 2000; Efendi et al. 2006; Frey/Osterloh 2005; Johnson et al. 2006; Yermack 1997). The draconian sanctions of the Sarbanes-Oxley Act are bound to lead to an explosion in costs without slowing the explosion in salaries and fraudulent bookkeeping (Romano 2005). According to the majority of findings, independent boards have not prevented managers from expropriating shareholders by also entrenching themselves (Boyd 1994; Core et al. 1999; David et al. 1998; Lambert et al. 1993; Main 1991; Westphal/Zajac 1994).

\(^{iv}\) This paper refers to Benedictine abbeys, which are autonomous monasteries within the Benedictine Order. Where no specific abbeys are mentioned, we use the more common term monastery. This term is broader and also includes affiliated houses.

\(^{v}\) Further, one of the authors lived in the monastery of Engelberg for three month.

\(^{vi}\) More information and the data can be made available by the first author.

\(^{vii}\) For an analysis the following sources are used: rule, law and constitutions of Abbeys and Congregations, and expert interviews with Guido Muff (prior of the Abbey of Engelberg), Reto Krismer (managing director of the Abbey of Einsiedeln), Thaddäus Schreiber (padre of the Abbey of Ettal), Wolfgang Gehra (managing director of the Abbey of Plankstetten), and Benno Malfèr (archabbot and supreme visitor of the Swiss Benedictine Congregation and abbot of the Abbey of Muri Gries).
Interviews carried out in 2007 with Reto Krismer, managing director of the Abbey of Einsiedeln and Archabbot and first ‘visitator’ of the Swiss Congregation Benno Malfèr.

For a criticism see e.g. the discourse about the total institution (Goffman 1961).