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The American Review of Public Administration 2010 40: 631 originally published online 18 May 2010

DOI: 10.1177/0275074009360372

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Monastic Governance: Forgotten Prospects for Public Institutions

Emil Inauen, Katja Rost,¹ Bruno S. Frey,¹
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Abstract

To overcome agency problems, public sector reforms started to introduce businesslike incentive structures to motivate public officials. By neglecting internal behavioral incentives, however, these reforms often do not reach their stated goals. This research analyzes the governance structure of Benedictine monasteries to gain new insights into solving agency problems in public institutions. A comparison is useful because members of both organizational forms, public organizations and monasteries, see themselves as responsible participants in their community and claim to serve the public good. This research studies monastic governance from an economic perspective. Benedictine monasteries in Baden-Württemberg, Bavaria, and German-speaking Switzerland have an average lifetime of almost 500 years, and only a quarter of them broke up because of agency problems. The authors argue that they were able to survive for centuries because of an appropriate governance structure, relying strongly on the intrinsic motivation of the members and internal control mechanisms. This governance approach differs in several aspects from current public sector reforms.

Keywords

public governance, New Public Management, public sector reform, psychological economics, agency problems, monasteries, Benedictine order

Why Are Monasteries of Interest for Public Sector Management?

Reforms of the public sector have been on the political agenda for more than 20 years, and the New Public Management (NPM) paradigm initially guided the ideas. Its core idea is that public sector organizations need to be more businesslike in their attitudes and operations (Hood, 1991; Osborne & Gaebler, 1992; Osborne & Plastrik, 2000). This concept “marked a radical shift from a public service whose purpose was to promote public welfare to an enterprise culture based on

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efficiency and economy” (Mascarenhas, 1993, p. 319). The reforms were characterized by the adoption of instruments originally developed for the business sector, for example, budgeting techniques, market analysis, and performance management (Box, 1999; Henkel, 1997; McVicar, 1992; Miller, 1995; Sotirakou, 2004; Thorne & Cuthbert, 1996; Williams, 1994) or pay-for-performance schemes (Metcalf, 2008; Reingold, 2008; Verhoest, 2005). NPM principles are intended to change the way public sector organizations are controlled and public sector employees are motivated.

However, it soon became apparent that practices employed in the private sector could not easily be transferred to the public sector. For public sector organizations, many of the suggested external incentives have led to problems (Amrein & Berliner, 2002; Bertelli, 2006; Bogh Andersen, 2007; Bumgarner & Newswander, 2007; Hood, 2006; Klingner, Nalbandian, & Romzek, 2002). These problems are similar to those encountered in private business environments (Bebchuk & Fried, 2004; Jensen, Murphy, & Wruck, 2004; Stefani, 2008; Zingales, 2009), that is, incentive distortion, gaming behavior, or motivation crowding out. For example, teachers tend to “teach to the test” when their salary is coupled with their students’ performances (Wragg, Haynes, Wragg, & Chamberlin, 2004); the practical wisdom of decision makers is suppressed (Kane & Patapan, 2006), or the strong crowding out of intrinsic motivation with the introduction of pay-for-performance in the U.S. Internal Revenue Service (Bertelli, 2006).¹

As a reaction, new models guiding public sector reforms were developed, such as the “New Public Service” model (Denhardt & Denhardt, 2000; Perry, 2007) and the “Integrated Governance” model (Halligan, 2007). These new approaches explicitly highlight their differences to the original ideas of NPM. For example, the New Public Service model embraces the idea of a public service dealing with “citizens,” whereas NPM would speak of “customers” conveying its market orientation. The Integrated Governance model follows NPM with respect to performance improvement and business world tools (e.g., project management) but proposes a stronger focus on centralization and cooperation. While producing substantial progress, these new models still emphasize the use of external mechanisms to control public sector organization at the cost of neglecting internal aspects of governance.

This article suggests that we learn from the monastic approach. Such an approach shows that internal control mechanisms can fruitfully complement external controls. Monasteries implemented organizational structures that were likely to secure appropriate selection, including socialization as well as compliance to a common value system. They also kept their monks motivated by granting them sufficient participation rights. The work of Denhardt and Denhardt (2000) is the inspiration for Table 1, which depicts NPM, two successors, and the monastic governance approach on relevant dimensions for this article. In particular, Table 1 shows that models guiding public sector reforms put less emphasis on internal control and on serving society. We address the commonalities and differences of the monastic governance approach in the remaining parts of this article.

In their history, the Benedictine Order had to deal with similar agency problems as public service management. Studying the governance of the Benedictines therefore may provide relevant insights for the public service literature and contribute to new approaches guiding public sector reforms. We do not intend to proffer a one-to-one transfer of monastic governance mechanisms or to compare and appraise the institutions in their entirety. Instead, we consider some concepts that may also be relevant to governance structures in administrative organizations.

In the following, we present an analysis of the governance system of a particular religious order, the Benedictines.² The Benedictine Order provides an interesting environment, because it has been successful for a long time and can be considered an archetype of public sector organizations (Berman, 1983; Crislip, 2005; Lindberg, 2008; McGrath, 2007; Moulin, 1965; Weber, 1930). In a seminal paper, Kieser (1987, p. 103) analyzes Benedictine monasteries and describes

Table 1. Development of Public Sector Reforms

	First Reform Generation: New Public Management (NPM)	Beyond NPM 1: New Public Service	Beyond NPM 2: Integrated Governance	Informed Extension: Monastic Governance
Primary theory	Agency theory	Democratic theory	Agency theory and Weberianism	Psychological economics
Responsibility	Customers	Citizens	Citizens and customers	Society
Role of government	Monitoring and steering	Brokering and serving	Improving	Serving
Motivation of agents	Extrinsic	Intrinsic	Extrinsic and intrinsic	Intrinsic
Primary governance mechanisms	Controlling monetary external incentives	Building coalitions, representation of interests	Controlling (non) monetary external incentives, goal setting	Internal incentives (autonomy) and supportive external incentives

Source: Based on Denhardt and Denhardt (2000, p. 554).

them as the “first deliberately designed organization in the Occident.” The great economic success of numerous monasteries in medieval times serves as an example of an efficient organization. However, the creation of wealth led to the temptation of misuse. For example, some abbots and monks lined their own pockets, and certain monasteries were undisciplined. Some monasteries became very rich through their rational labor organization (e.g., the division of labor) and their work morale. The resulting wealth was a significant reason why governance became important.

In the next sections, we discuss the efficiency of monastic control mechanisms by empirically analyzing how Benedictine abbeys approach their specific governance problems.³ In a historic analysis of crises, we ask if Benedictine monasteries were and are capable of solving agency problems. If so, how are they doing this, and what are the insights for public organizations? As we will show, monasteries address their agency problems in a different way than suggested in the NPM approach and the subsequent models. Monastic leaders are mainly disciplined through internal control mechanisms, such as selection tools, value systems, or participation rights. Internal behavioral incentives are complemented with external mechanisms, which primarily serve as a support and not as a monitoring instrument. We argue that recent public sector reforms, especially those focusing on NPM, insufficiently consider internal behavioral incentives and their interaction with external control. They therefore may fail to capture the resultant levels and changes in behavior. By underestimating such things as loyalty and trust this type of governance neither protects organization-specific investments nor the intrinsic motivation of public sector employees (see the literature on public service motivation, e.g., Crewson, 1997; Moynihan, 2008; Moynihan & Pandey, 2007; Perry, 1997; Perry & Hondeghem, 2008; Perry, Mesch, & Paarlberg, 2006; Perry & Wise, 1990; Ritz, 2009). Additionally, such governance may damage the image of the civil servant, who is expected to be the steward of a public good, and it may damage the public service ethos (Horton, 2006, 2008).⁴

Monasteries pursued their own agenda; they point to possible directions to mitigate the weaknesses of public sector reforms and to complement these reforms.

Can Public Sector Organizations Learn From Benedictine Monasteries?

Worldwide, a vast number of religious orders exist. The selection of the Benedictine Order makes sense for the following reasons. Benedictine monasteries belong to the oldest and most steady institutions in the Catholic Church. They have greatly influenced the development of Western economics and work ethics (Faust, 1997; Kieser, 1987; Moulin, 1965). Till today, the Benedictines have been the most powerful and largest monastic order (Annuario Pontificio, 2005; Hostie, 1972; Schwaiger & Heim, 2008). The autonomy of the particular monasteries without centralistic governance leads to well-defined entities, facilitating a consistent analysis. Furthermore, the practices and the emergence of the Benedictine governance system are well documented, and the emphasis on work and service duties beside spirituality (“ora et labora”) makes it a strong case beyond the religious field.

The question arises whether a comparison between monastic institutions and public organizations is useful. In the following section, we explain why such a comparison is promising. On the one hand, it is obvious that there are fundamental differences between monastic organizations and public administration organizations. To mention the most important, the padres and brothers constitute a life partnership, where faith is of crucial relevance (e.g., Reiber, 2003). On the other hand, the basic principles of organizing are similar. For Benedictine institutions, as well as for other organizations, the purpose is an efficient achievement of their objectives as set by a principal (Kieser & Walgenbach, 2007). However, the similarities go far beyond comparing basic principles. Various substantial affinities exist.

First, to ensure an efficient target achievement, inefficiencies (agency problems such as luxury consumption, idleness, or fraudulence) have to be reduced. These negative aspects show some similarities to the deficits of public administration organizations. A core problem is that individuals holding leading positions tend to accumulate uncontrolled discretion (Berle & Means, 1932). In monasteries, there is no possibility of distributing the wealth accumulated (Hansmann, 1980), but there is a strong incentive to make life as luxurious and enjoyable as possible. In the long history of monasteries, it was common for abbots and even entire monasteries to live a life of luxury (Helvetia Sacra, 1986; Kieser, 1987). In public organizations, there is the possibility of damaging taxpayers through opportunism, for example, by misallocating state funds or by staying on the job even when employees are no longer competent or qualified. Whistleblowers regularly report such misbehavior in public sector organizations (Cropf, 2008; Jos, Tompkins, & Hays, 1989).

Second, the Benedictine institutions are not only considered an archetype of religious orders (Schwaiger & Heim, 2008) but of public sector organizations as well (Tilgher, 1930).⁵ The two organizational forms have a lot in common with respect to purpose and self-conception. They share many common roots, which are apparent to this day. Monastic governance had a major impact on public structures and institutions. Monasteries in medieval times were pioneers in the development of constitutional law and political institutions (Berman, 1983; Moulin, 1965), health care (Crislip, 2005), and education (Lindberg, 2008; McGrath, 2007).⁶ These sources are visible in the distinctive service attitude of the Benedictines, expressed by religious, educational, and cultural offers and services. Benedictine institutions are not legitimized politically or democratically, but they aim at “building a school for God” (Regula Benedicti, 2006) and engaging in a “Kingdom of God.” For a Benedictine monk, “serving for God” is equivalent to “serving the people” (Regula Benedicti, 2006). Members of both organizational forms see themselves as responsible participants of society and claim to serve the public good. Consequently, they share a nonprofit orientation. Closely connected with the purpose is motivation: Intrinsic motivation can be found in both monasteries and the public sector (Perry, Brudney, Coursey, & Littlepage, 2008). Monks have a strong intrinsic motivation in their search and glorification of God (Schweizer Benediktinerkongregation, 1986). Similarly, public service employees have been shown

to be driven by a strong desire to contribute to society (Crewson, 1997; Cropf, 2008; Houston, 2000; Perry et al., 2008; Rainey, Backoff, & Levine, 1976). When intrinsic motivation is high, there is always the danger that external control (e.g., because of the introduction of pay-for-performance) can backfire and reduce the agents' performance or compliance with the rules. Such crowding out of intrinsic motivation has been suggested by psychological economics (for an overview, see Frey & Benz, 2004) and motivational psychology (for an overview, see Deci & Ryan, 2000a, 2000b). This literature is also the basis for the research on public service motivation (Perry & Hondeghem, 2008) and for the "New Public Service" model (Denhardt & Denhardt, 2000). In a similar way, combining intrinsic motivation and control is the core of monastic governance.

Theoretical Foundation: Three Basic Concepts

Our aim is to investigate empirically whether monasteries succeeded by developing efficient governance mechanisms to constrain bad abbots and their exercise of uncontrolled discretion and if it is possible to derive relevant conclusions for the governance of public institutions. To do so, we outline the basic concepts relevant for monastic governance. We first briefly consider agency theory because it inspired both public management reforms and our analysis largely (Ferlie, Pettigrew, Ashburner, & Fitzgerald, 1996; Kaboolian, 1998; Pollitt, van Thiel, & Homburg, 2007).

Agency theory, which is still the dominant theoretical approach within governance literature, suggests using external control mechanisms to solve agency problems (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Jensen & Murphy, 1990a, 1990b). Public organizations receive their resources from taxpayers, and the interests of public organizations may not necessarily coincide with those of absent taxpayers. To overcome these agency problems, proponents of NPM reforms argue that public organizations should be managed by performance criteria and extrinsic incentives (Becher & Kogan, 1994; Jarratt, 1985; Lewis & Altbach, 1996; Osborne & Gaebler, 1992). The "market-aligned" public organization applies performance-based budgeting in which the received taxpayer resources are sold to customers (Sotirakou, 2004; Williams, 1994). However, the theory tends to constrain the attention to a narrow and empirically questionable view of human motivation, the classical *homo oeconomicus* (Frey, 1999).

Such a constrained view of human motivation is not helpful when designing new guidelines for organizational reforms in the public sector. Successors of NPM acknowledge this by explicitly referring to the concept of public service motivation (see, e.g., Denhardt & Denhardt, 2000). However, they do not tell us how a government should look that fosters this kind of motivation. The monastic approach is able to fill this gap and therefore delivers important insights for designing public sector organizations.

In the following, we highlight several theories that are relevant building blocks for the analysis of monastic governance and which significantly depart from the assumptions of the classical economic model. These theories are psychological economics, embeddedness theory, and political economics. The first approach focuses on motivation, the second is concerned with selection and socialization, and the third addresses voice and participation issues.

Psychological Economics

The assumption of rationality is the foundation of standard economic theory. This viewpoint stands in sharp contrast to the view of cognitive psychology: Individuals often act in a less than fully rational and self-serving manner (Kahneman & Tversky, 1973; Tversky & Kahneman, 1973, 1974, 1992). Psychological economics picks up this criticism by starting with the assumptions of bounded rationality, bounded willpower, and bounded self-interest (for an overview, see Frey & Benz, 2004). Psychological economics considers these systematic deviations from the behavior of *homo oeconomicus*.⁷

Important subtheories in our context are matters such as fairness-reciprocity theory (Dufwenberg & Kirchsteiger, 2004; Falk, Fehr, & Fischbacher, 2003; Rabin, 1993) or the relevance of social (dis)approval (e.g., Akerlof, 1980; Fehr & Falk, 2002). Largely, individuals react based on their beliefs about other people's intentions. From this perspective, common value systems signal friendly intentions and "people feel obligated to respond to positive behavior received with positive behavior in return" (Groves, Cialdini, & Couper, 1992, p. 480). Control and supervisory institutions, on the other hand, are more likely to signal neutral (economic exchange related) or even "unfriendly" intentions in the sense that these might signal distrust or insinuate the selfish nature of the employees (McGregor, 1960; Osterloh & Weibel, 2006). The empirical literature supports these insights. Beliefs about fairness matter (Blount, 1995; Cox, 2004; Falk et al., 2003; Sobel, 2005). An appropriate design of values, which fosters social approval, makes individuals happier and affects their behavior (for an overview, see Fehr & Falk, 2002; Gächter & Fehr, 1999).

The incomplete contract literature emphasizes that in complex environments, such as organizations, complete contracts cannot be written or enforced (Heinrich & Choi, 2007; Milgrom & Roberts, 1992). Therefore, honesty, intrinsic job satisfaction, and intrinsic motivation lead to better results from the contracted parties than relying on monitoring or monetary incentives (Gintis & Khurana, 2006; Jensen, 2006). Experiments confirm that employees exert more effort if labor contracts are regarded primarily as a "gift exchange" rather than as a disciplinary tool (Akerlof, 1982; Irlenbusch & Sliwka, 2003). As far as knowledge work is concerned, "management by intrinsic motivation" is crucial to ensure high performance of the organization (Frey & Osterloh, 2002; Osterloh, Frost, & Frey, 2002).

The assumptions of psychological economics affect external control too. In contrast to other forms of external control mechanisms (e.g., pay-for-performance), supportive control does not reduce intrinsic motivation. The crowding out of intrinsic motivation only occurs if people perceive an external intervention as controlling and hence as reducing their self-determination (with respect to the public sector, compare Bertelli, 2006; Bogh Andersen, 2007; for an overview, compare Deci, Koestner, & Ryan, 1999; Frey & Jegen, 2001).

Embeddedness Theory

The embeddedness approach investigates how the behavior of economic actors is affected by social relations (Baker, 1990; Granovetter, 1985; Lubatkin, Lane, Collin, & Very, 2007; Uzzi, 1996). Because purposive actions are embedded in ongoing systems of social relations, such systems contain valuable information about one's own past. This happens in collaboration with the individual or through information from a trusted source that has dealt with that person and found him or her trustworthy. In contrast to secondhand information (e.g., certifications or testimonials), this information is less expensive, richer, more detailed, and accurate. Firsthand information therefore enables the selection of trustworthy individuals. For example, professional consultants, such as the Boston Consulting Group or McKinsey, successfully practice the embeddedness approach as a selection tool to find suitable, trustworthy employees. Promotion decisions are fully dependent on firsthand information from numerous individuals about the behavior of a candidate. Furthermore, a practiced culture of values is essential to reduce agency problems. Embedding the actors promotes the successful socialization of these values; for example, employees spread them via relationships and networks.

Political Economics

According to political economics, the voice of employees (i.e., relying on inside monitoring and comprehensive participation rights) is important in preventing agency problems. Employees have

personal experience with managers and are thus highly suitable for selecting and controlling the management (Benz & Frey, 2007; Hirschman, 1970). Democratic constitutions actively promote the principle of checks and balances. This may not prevent some persons or branches from dominating for a period of time, but it ensures that other persons or branches can reassert themselves in due time (Frey, 1983). Democratic election systems create strong competition for filling open positions (Benz & Frey, 2007; Schelker & Eichenberger, 2004). Finally, employees invest in organization-specific knowledge (Osterloh & Frey, 2006). These investments cannot be protected (except at a high cost) *ex ante* when the parties enter into a relationship. However, the most relevant asset for any organization is organization-specific knowledge, which needs to be generated, accumulated, transferred, and protected (Foss & Foss, 2000; Grandori & Kogut, 2002; Penrose, 1959). Voice delivers incentives to invest in organization-specific knowledge.

Before focusing on the governance of monasteries with these concepts, we ask if monastic institutions are capable of solving their agency problems. Only if they are succeeding is an analysis justified.

Are Monasteries Able to Solve Their Agency Problems?

In both the public and the private sectors, an important function of governance is to control and discipline management in order to ensure efficient business routines (Daily, Dalton, & Cannella, 2003). The same goal is shared by the Holy See and the umbrella organizations of the religious orders where disciplining abbots and their convents is a central task (Schmidtchen & Mayer, 1997).

Our research starts with an analysis of the Benedictine abbey of Engelberg (Switzerland), which encompasses 900 years of history. A case study of this monastery shows that governance mechanisms on a monastery level are successful if they are indeed applied (Inauen, Rost, Osterloh, & Frey, *in press*). In the history of the monastery of Engelberg, many forms of incompetence and fraud can be found (Heer, 1975). The case study illustrates that abbots democratically elected by the convent had fewer agency problems. External influences on elections undermine good governance by promoting poorly performing abbots. In addition to codetermination, there existed selection and socialization mechanisms to discipline abbots. Good abbots had a longer tenure than unsuccessful ones. They accomplished demanding tasks before they were elected, and they were socialized within the monastery. The results suggest that only 6% of the competent but 79% of the poorly performing abbots had a weak or inconspicuous record of accomplishment. Furthermore, only 18% of the good but 40% of the poor abbots were outsiders from other monasteries. The study also shows that the shortcomings and failures of the abbots had serious consequences, sometimes even threatening the existence of the monastery (Heer, 1975). The monastery of Engelberg impressively accentuates the necessity of institutions supporting internal governance.

To check the results of the case study with a larger sample of monasteries, general indicators were developed. Using the survival rates of monasteries and the reasons for their dissolution allows us to evaluate the Benedictine governance system as a whole (Rost, Inauen, Osterloh, & Frey, *in press*). To analyze these indicators, data were collected on all Benedictine abbeys that ever existed in Baden-Württemberg, Bavaria, and German-speaking Switzerland. Our sample covers 134 monasteries: 19 in Switzerland, 35 in Baden-Württemberg, and 80 in Bavaria. Data for this analysis were obtained from historical chronicles (*Germania Benedictina*, 1970, 1975, 1999; *Helvetia Sacra*, 1986) and the Web site of the House of Bavarian History (2007). Institutions that were closed down and then reopened are counted as separate organizations. For this reason, the number of monasteries increased to 151. As of 2008, the abbeys had an average lifetime of 463 years. This is the first indication of efficient governance in Benedictine monasteries.

Table 2 analyzes the reasons for closures. The table lists 119 institutions after the year 1000 AD and ignores temporary closures, which implies 151 foundations. A total of 17.2% of the monasteries

Table 2. Survival and Closure of Monasteries^a

Reason for Closures	Benedictine Monasteries		Average Lifetime in Years
	n	Percentage	
No closure	26	17.2	277
Nonagency problem–related closures			
Voluntary closure	6	4.0	540
External institutional factors	79	52.3	568
	85	56.3	—
Agency problem–related closures			
Mismanagement	20	13.2	387
Change into other organizational form	11	7.3	313
Control failure	9	6.0	325
	40	26.5	—
Total closures	125	82.8	—

a. More information and the data can be made available by the first author (emilinauen@access.uzh.ch). See also Rost, Inauen, Osterloh, and Frey (in press).

were never closed, and 4% of the monasteries voluntarily closed. Quite a few monasteries, 52.3% to be exact, disbanded because of institutional factors. These monasteries fell victim to secularization or were violently dissolved during the Reformation. Other events such as a peasant revolt or the plague also led to breakups and forced shutdowns. Endogenous factors, such as the excessive amassing of wealth during secularization or loss of reputation during the Reformation, might have influenced the political climate against the monasteries, thus contributing to the closures. In the end, the monastic institutions and their members had little or no influence on the outcome of these incidents. Closures occurred regardless of how good the monastic management was. Hence, we simply speak of external institutional factors. Focusing on agency problems, 13.2% of the monasteries broke up because of mismanagement, including lack of discipline, insolvency, or recruitment problems. An analysis of particular monasteries shows that the breakups were mainly because of a combination of all three factors. Six percent disappeared because of control failures, including hostile takeovers. The changes in governance structures are revealing—more than 7% of the monasteries studied changed into collegiate churches. Mainly, these changes indicate the monastic leaders' desire for wealth because collegiate churches permit private ownership and other liberties. As shown in Table 2, monasteries unable to survive because of agency problems (40 monasteries or 26.5%) have a shorter average lifetime (387, 313, and 325 years) than those that dissolved because of external institutional influences or were voluntarily liquidated (568 and 540 years).

Figure 1A shows the number of existing monasteries and collegiate churches over time. One can see that the Benedictines never recovered from the dissolutions during the Reformation in the 16th century and secularization in the 19th century. In the 20th century, the number of monasteries slowly began to rise again. A survival analysis underlines the extraordinary stability of the Benedictine institutions. Figure 1B shows the probability of survival. After 500 years of existence, the chance of survival is one half; after 1,000 years, it is still more than 10%. We do not know of any comparable local organizations (including other religious orders) with such a performance record. In the United States, for example, half the companies listed at some time between 1978 and 2004 had been incorporated for less than 23 years. Fewer than 10% of them made it past 83 years, and the oldest was 280 years old (Fama & French, 2004). Again, it is worth looking at the Benedictine history with a special focus on agency problems. Hardly surprising is the fact that

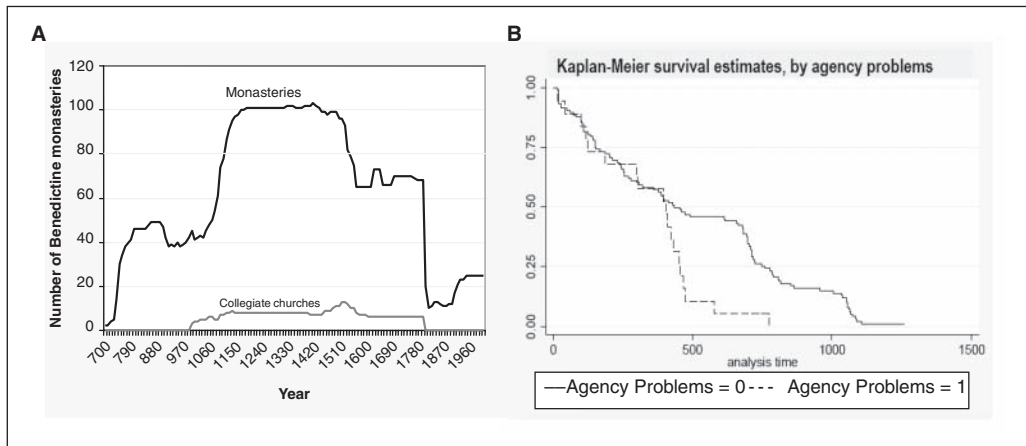


Figure 1. Absolute number of Benedictine monasteries and collegiate churches over time (A) and Kaplan–Meier survival estimates (B)

monasteries, which disappeared because of agency problems, show a considerably reduced survival rate in Figure 1B. The survival estimate decreases rapidly when approaching the 500-year mark. Finally, Figure 1A indicates that functioning governance structures are hard to maintain under difficult circumstances. Governance changes from monasteries to collegiate churches were most prominent when the monasteries were economically weak and discipline failed, which is what occurred during the wars of the 10th century and the Reformation.

To sum up, in the history of the Benedictine Order, a selection occurred. A maximum of one quarter (26.5%) of the monasteries did not survive because of agency problems. The vast majority of monastic houses were closed because of external institutional factors or they still exist today. Considering the survival rate, we conclude that the Benedictine Order is a special case indeed. An average lifetime of almost 500 years indicates crisis-proof, effective governance mechanisms. The qualitative and quantitative historical analyses show that the Benedictines are capable of adjusting their institutions with regard to agency problems. We show in particular that the monastery of Engelberg adapted an efficient governance system with an emphasis on internal governance mechanisms. These findings apply to the Benedictine Order as a whole.

The next section examines these governance mechanisms. Agency problems seem to be negligible in today's Benedictine monasteries. This can be attributed to a special external control and its interplay with internal control.

The Benedictine Way to Solve Agency Problems

Why do Benedictine monasteries survive so well and seldom fall prey to mismanagement, hostile takeovers, or change of governance? This section introduces the specific governance of the Benedictines in detail. Because there is hardly any literature on the governance of monasteries, the following sources were used: rules, laws, and constitutions of abbeys and congregations and several expert interviews.⁸ As the next section refers to an exemplary monastery of today, a historical analysis shows that the basic governance instruments were established very early (see, in detail, Inauen & Frey, in press). The first paragraph argues that monasteries build on strong internal control by applying a common value system, careful selection, socialization, participation, and monitoring. The second paragraph points out that the Benedictines backed up their

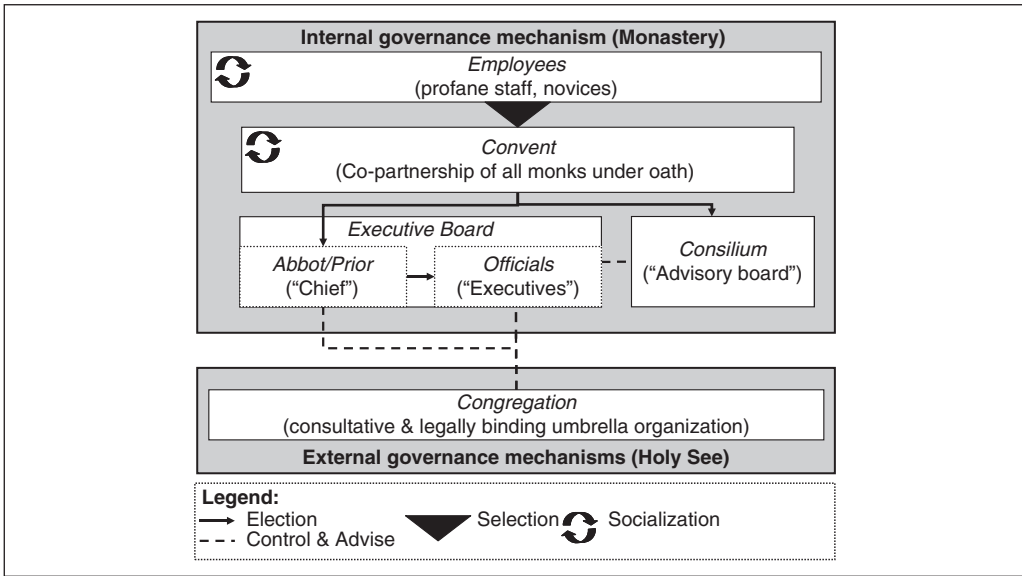


Figure 2. Governance mechanisms of the Benedictines
 Source: Based on Rost, Inauen, Osterloh, and Frey (in press).

internal arrangements with external arrangements such as periodic monitoring or jurisdiction. Figure 2 presents a graphical overview of the governance of a Benedictine monastery.

Internal Governance Mechanisms

Internal control in the Benedictine monasteries can be divided into two main categories. On the one hand, monasteries build on common value systems, careful selection, and rigorous socialization processes. These arrangements can be explained by embeddedness theory and psychological economics. On the other hand, monasteries grant participation rights to their monks and build largely on internal monitoring processes. Participation rights are in line with the recommendations of political economics. These internal monitoring processes in monasteries reduce agency problems. The internal governance of the Benedictines fulfills a second, interesting task for administrative organizations. Monastic governance promotes a pronounced service attitude, which is a central pillar in New Public Service theory.

Embeddedness in Common Value Systems. As public sector institutions have done in the past (Horton, 2006, 2008), monasteries refer to common value systems in order to discuss possible solutions (McGrath, 2007). These value systems go far beyond “codes of best practices.” The Benedictine value system is based on three cornerstones: the Bible, the rule of St. Benedict, and the tradition of a particular monastery. Besides being based on the Bible, the rule of St. Benedict is the most important influence in the daily life of a monastery. It contains universal rules that circumscribe the service orientation of the monks. Hospitality or kindness is deeply grounded in the value system of the order (Regula Benedicti, 2006). St. Benedict’s writings reverberate with personal and economic interactions. The universal character of the rules prevents the communities from excessive bureaucracy and lengthy decision making. A common canon of values is able to reduce transaction costs. Monastic or canon law comes into effect only when problems arise. Oppositely, some public sector reforms put a major focus on contracting to govern the provision of public services (Emery & Giauque, 2001). Such governance overemphasizes external control

mechanisms, whereas the monastic approach has the potential of inspiring internal modes of coordination in public sector organizations.

To ensure that common value systems are suitable to guide the individual behavior of their members, the Benedictines build on careful selection and rigorous socialization processes.

Selection. Candidates for a monastic career go through a stringent selection process to test their suitability. The selection process is practically identical for every Benedictine monastery. There are four stages. First, every candidate, independent of application credentials, is welcome to live in a monastery for a few months. During these months, the candidate learns about the value system of the Benedictines and has the opportunity to ponder his motives carefully before becoming a full member. Thus, instead of preselecting employees, monasteries make use of self-selection. The decision to stay, in part, is handed back to the candidate. However, many aspirants do not fulfill the requirements. Second, a 1-year probationary period follows. During this year, the novice learns about the foundations of the value system, the Holy Scripture, and church law. The other monks scrutinize his suitability. Third, a period called temporary profession follows, which lasts 3 years and contains a monastic apprenticeship—or the beginning of monastic studies. The underlying reason for the temporary profession is that individuals may change their minds. A profound education is required to provide a sound basis for decision making. Only after the first three steps are completed can full membership, or solemn profession, be celebrated. Solemn profession involves the unconditional commitment of both parties. In each case, the convent, which is 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 has broad participation rights. Similar ideas have been proposed for public sector recruitment (Moynihan, 2008). It has been argued that the exaggerated employment of external incentives leads to negative selection effects; that is, it attracts candidates overwhelmingly fascinated by such benefits. Instead, human resources managers in public institutions should try to reap positive selection effects by focusing on candidates displaying high levels of public service motivation. Such motivation represents the desire to contribute genuinely to society and the common good and to have a true commitment to a public service ethos.

Socialization. To ensure living and working together successfully, careful socialization and the creation of an organizational identity is crucial. Three rules are essential. First, with respect to the Benedictine values, dialogue among the monks is fostered and any possible disagreements are addressed and solved. Second, a humble attitude is required, which does not indicate a subservient behavior but forgiveness, mutual respect, and openness to external suggestions. This attitude is termed “serving rather than ruling” (Eckert, 2000). It should appear not only inside a monastery but also in every relationship. Third, a monastic partnership depends on a life environment that is fulfilling. Regarding the monks’ professional lives, the Benedictines see work as a vocation and not a professional activity; work is considered part of one’s personal growth. This ethic has its source in the first millennium when St. Benedict saw work as a path to find inner peace (Kieser, 1987).

The Benedictines promote equality of treatment in daily life to integrate new members. From the very beginning, a novice is a part of the community; he participates in the same environment, including the daily routine, prayers, and meals. Being treated as an equal in a life and work community facilitates the development of common values (Wenger & Snyder, 2000). The Benedictines also use extensive learning programs in which their codex and knowledge are used to shape a common identity and facilitate the growth and development of all members (Reiber, 2003). Apart from joint prayers, monasteries have implemented other learning practices, such as daily readings at the communal dinner table. These readings deal with diverse topics, such as the Bible, politics, philosophy, or the history of the Benedictines and the respective monastery. Besides education, these institutions strengthen the sense of belonging to something bigger than a particular monastery. The socialization lasts a lifetime and encourages an intrinsic transfer of the overall

value system. According to psychological economics, the socialization principles of the Benedictines increase the purpose and the intrinsic motivation of each organizational member and thus the welfare of the whole organization (Deci, 1975; Frey & Osterloh, 2002). For public organizations, related approaches occur, although not this sophisticated. Ouchi (1977) presents the case of employees in a government's foreign services department where socialization takes place inside professional groups and the internalization of norms and values is induced through education and senior colleagues behaving in a manner that is desired by the institution.

Members' Voice. The abbot 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 member. The monks possess substantial participation rights and monitor the abbot and his officials (Schweizer Benediktinerkongregation, 1986; St. Ottilien Benediktinerkongregation, 2004).

Participation. The convent consists of all 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, for example, the acceptance of a novice as a full member or the expansion of the monastery through acquisition. Second, the convent democratically elects the abbot and the employee representatives for the "advisory board," or the consilium.⁹ Third, the convent evaluates whether a proposed prior is eligible. However, to make sure that the team in charge works in harmony, the abbot nominates and has the final say on which prior is selected. Fourth, members of the convent have the right to make requests and give opinions. Additionally, dialogue among the monks is encouraged today.

Some NPM scholars consider voice to be a missing feature of the NPM reforms (Box, 1998; Gruening, 2001). The monastic governance demonstrates that voice enhances good governance. This is in line with the literature, which argues that voice should be a decisive part of NPM (Vigoda & Golembiewski, 2001).

Monitoring. Monasteries complement participation processes with internal monitoring processes. Beside predefined procedures, a separate advisory board (the consilium) counsels the abbot and his officials. They discuss contentious issues without having the final responsibility to make major business decisions. The consilium exclusively consists of insiders, that is, elected members of the convent (employee representatives) and nominated members of selected functions (Schweizer Benediktinerkongregation, 1986).

The substantial participation rights in monasteries can be regarded as a model for public sector organizations: Padres and brothers have a voice in running the monastery. They can discipline the abbot and the management team (the officials) and thus prevent fraudulent behavior. Among other things, the monks are compensated for their (lifelong) tenure by receiving considerable voting rights and codetermination. They provide a strong incentive to invest in organization-specific knowledge (Osterloh & Frey, 2006).

External Governance Mechanisms

The interplay between internal and external control mechanisms in Benedictine monasteries is of particular interest for public sector organizations. History shows that the internal control mechanisms of monasteries sometimes fail. For example, in situations where an abbot and the convent join in enriching themselves or simply do not care about the economic situation, external control becomes important. The organization of the external control in monasteries corresponds to insights in political economics. External control is hierarchically organized and consists of jurisdiction and periodic monitoring. Each monastery is embedded in a hierarchical structure of congregations, the Benedictine Confederation, and the Holy See. The congregation is the umbrella organization of the monasteries, in most cases, within a geographical region. It is responsible for monitoring the monasteries in its area of accountability. Abbots and some delegates of the

respective houses represent each congregation. These representatives form the congregational chapter and elect the archabbot as president. The archabbot is recruited from an associated monastery to guarantee internal expertise. Each congregation is a part of the Benedictine Confederation. The Benedictine Confederation is an independent institution and facilitates the exchange of experiences between congregations and the Holy See, but it has no direct influence on the decision process.

Jurisdiction. Benedictine monasteries belong to the Catholic Church, are subject to its laws, and depend on the Holy See. Besides church and constitutional law, the legal norms of the congregation are binding for any particular monastery. The jurisdiction of the congregation is the first instance 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. 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 4 to 5 years, delegates of the congregation visit a community to evaluate the condition of the monastery. The visitation considers not only the economic situation of a monastery and its fields of activity but also the spirit and the discipline of the community and its members, and it examines the personal relationships between the monks and their superiors and investigates abuses of authority (Schweizer Benediktinerkongregation, 1986). This institution focuses strongly on cultural and relational aspects. In addition to auditing, the visitors make use of questionnaires and interviews to detect any problems and failures. They analyze processes in-depth, ask specific questions, and refer to aspects, which pass unnoticed in the normal daily routine. Benno Malfèr, the Archabbot and first “visitor” of the Swiss Congregation, says “The most important function of ‘visitations’ is to induce reflection, and not to exercise control and discipline. Visitations contribute assistance and advance the exchange between monasteries.”¹⁰

What Can Public Sector Governance Learn From Monastic Governance?

Waves of public sector reform, in particular those represented by NPM, changed and still change the governance system of public organizations by introducing businesslike, external incentives and focusing on market exchanges. The public sector may benefit from such businesslike public sector reforms in some respects. Yet, the new alignment has also brought new problems. Wrong external incentives covering questionable performance criteria may be one important reason for such failures. Although new models were developed to address the shortcomings of early reforms, a strong connection to market orientation remains. In addition, most successors of NPM that are guiding today’s reforms say very little about the design of internal governance institutions, such as “voice,” loyalty, and trust. However, internal arrangements protect organization-specific investments, shape the image of the public sector employee as the steward of the taxpayer, or influence the belief that employees are willing to undertake efforts for a fixed compensation. Internal behavior incentives are most important in the public sector.

Here we can learn from monastic governance. Since medieval times, monasteries solved their governance problems by pursuing a twofold strategy, which used both external and internal control elements. The monastery approach shows that internal arrangements help avoid problems and facilitate control that is more effective. Monasteries build on generally known rules and conventions (e.g., the rule of St. Benedict and the tradition of a particular monastery). They supplement these rules with collective, internal institutions. Through careful selection and socialization practices, a shared understanding of the values is obtained and correct behavior encouraged. Instead of external incentives, the convent examines the preconditions of contenders and configures the

processes and practices within the monastery. Members' voices via the convent or the consilium strengthen checks and balances further. The governance of public sector organizations can learn from monasteries, which emphasize these internal mechanisms and demonstrate their usefulness. These historically evolved governance mechanisms are also in line with new developments in economic theories, for example, new proposals by psychological or political economics and embeddedness theory. Besides the plea to find new ways of solving agency problems and improving public reforms, the example of monasteries offers a variety of internal and external governance mechanisms that are worth examining in further research.

Limitations

When considering what public sector organizations can learn from Benedictine monasteries, the resemblance promises interesting results. However, one should keep in mind existing differences, which can limit the application of the monastic approach. First, the extraordinary relevance of faith and spirituality has to be mentioned. The biggest difference is that padres and brothers set up a life partnership (Reiber, 2003). Work, rest, and leisure happen inside the same buildings and within the same community. The consequence is a stronger involvement and connection to the institution, which is perceived as a "life partnership" as opposed to public organizations. Second, monasteries sometimes are hot spots for gossip and mutual control, including lobbying and power games. This kind of behavior is not desirable and can cause severe damage on a personal and organizational level. Third, because monasteries build on strong and uniform value systems, not only do individuals increase their social identity within the group, but groups also become more cohesive (Tajfel, 1981). The theory of groupthink hypothesizes that cohesive groups are most likely to experience groupthink—the belief in the inherent morality of the group and stereotypes of out-groups (Janis, 1972, 1982). Groupthink leads to the systematic and emotional devaluation of ideas, which were not discovered or launched within their own social collective (Turner & Pratkanis, 1998). Fourth, social comparison theory hypothesizes that cohesive groups are more susceptible to expert power (Festinger, 1954), leading to dictatorship and abuse of power (Coleman, 1990). Finally, the lifelong commitment to a monastery has to be considered. In public service, strong commitment is desirable but not in such an absolute way as in monastic institutions. While giving voice and developing loyalty, they (consciously or unconsciously) tend to build exit barriers. When exit costs are exorbitant, hindering people from leaving, negative outcomes, like discouragement, will occur (Hirschman, 1970).

For these reasons, public sector organizations 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. Public sector organizations can prevent groupthink by promoting the diversity of their employees and their managers (Flap, 1988). Commitment should be fostered without creating exit barriers and constraining the employees too much.

Finally, it should be mentioned that we presented an idealized picture of monastic governance. Such an extreme way of life, as chosen by the Benedictine monks, can present serious drawbacks. For example, Goffman, (1961) depicts monasteries as "total institutions," which may deprive an individual of his rights. Symbols such as the monk's cowl, rituals such as the reception of a religious name, or the expropriation of a novice's possessions would lead to a degeneration of the personality. Such concerns are not addressed in this paper. Although we argue that both institutions can learn from each other, we highlight some governance aspects in which the public sector can profit from the historic monastic organization of the Benedictine abbeys.

Conclusion

The monastery approach suggests that public sector organizations can prevent agency problems by complementing external discipline with internal behavioral incentives and by using supportive external control mechanisms. Internal behavioral incentives refer to intrinsically motivated actors who will not slavishly react to external incentives. Internal arrangements facilitate improved control through voice in the form of democratic rights of participation and through loyalty and trust expressed in the protection of organization-specific investments. Democratic, supportive external control mechanisms refer to self-determined actors who are interested in improving their self-governance.

Acknowledgments

The authors are most grateful for the support of Padre Gregor Jäggi and Reto Krismer (Abbey of Einsiedeln), Prior Guido Muff (Abbey of Engelberg), Padre Thaddäus Schreiber (Abbey of Ettal), Abbot Benno Malfèr (Abbey of Muri-Gries), Padre Nestor Werlen (Capuchin Monastery Brig) and for the valuable comments by four anonymous reviewers. We are most grateful for the considered comments of Mathias Erlei (Clausthal University of Technology), Martin Held (Protestant Academy Tutzing), Alfred Kieser (University of Mannheim), Kent D. Miller (Michigan State University) and valuable suggestions made by participants of the workshop “Views on Good Governance” at the conference “Governing Good and Governing Well” held in Amsterdam, May 28-30, 2009, chaired by Susan Rose-Ackerman and Leo Huberts.

Declaration of Conflicting Interests

The authors declared no conflicts of interest with respect to the authorship and/or publication of this article.

Funding

The authors received no financial support for the research and/or authorship of this article.

Notes

1. NPM principles have not been applied in the same manner globally. For example, the United States, the United Kingdom, Australia, and New Zealand are considered early adopters of NPM reforms, whereas other nations such as Germany still apply a more traditional approach that has been termed the “Neo-Weberian State” (see, e.g., Boin, James, & Lodge, 2006; Halligan, 2007; Kickert, 2008; Pollitt et al., 2007; Pollitt & Bouckaert, 2004). When comparing the different waves of public sector reform, NPM is still the relevant benchmark guiding reform initiatives (Kuhlmann, Bogumil, & Grohs, 2008).
2. Our analysis is related to the economics of religion (for an overview, see Azzi & Ehrenberg, 1975; Ferrero, 2002; Held, Kubon-Gilke, & Sturn, 2007; Iannacone, 1998; McCleary & Barro, 2006; Miller, 2002; Stark & Finke, 2000).
3. We refer 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.
4. For a contrary view, see Van der Wal and Huberts (2008).
5. During the medieval period, after the fall of the Roman Empire, the Catholic understanding of work evolved. In contrast to early Christianity, wealth now was recognized as an opportunity to share. This development also changed the self-image of Catholic institutions. In particular, in Benedictine monasteries, the generation of wealth is viewed as a common good, which has to be shared within the community (Braude, 1975). This understanding corresponds with the mission of public institutions.
6. Appropriate approaches depend on the circumstances, such as the value being produced or the nature of the task (Alford & Hughes, 2008). Therefore, we limit the comparison of monasteries with public service

organizations to branches such as education, health care, and municipal administration, which have a relationship to the local community and a clear service commitment similar to the Benedictines. We do not consider organizations such as the police, military, or national parliaments.

7. We prefer the expression “psychological economics” rather than “behavioral economics” for two reasons. First, economists had already examined human behavior before this new field emerged. Second, Simon (1985) points out that the term “behavioral” is misleading because it may be confounded with the “behaviorist” approach in psychology.
8. We held interviews with Guido Muff (prior of the Abbey of Engelberg), Gregor Jäggi (historian in the Abbey of Einsiedeln), Reto Krismer (managing director of the Abbey of Einsiedeln), Thaddäus Schreiber (padre in 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).
9. Recently, in some abbeys, the tenure of an abbot has been restricted to 12 years instead of lifelong tenure as before.
10. Interview with Archabbot Benno Malfèr, November 7, 2007 (translation by first author).

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