Emil Inauen, Katja Rost, Margit Osterloh, Bruno S. Frey*

Back to the Future – A Monastic Perspective on Corporate Governance**

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. Monasteries demonstrate that organizations can prevent agency problems by complementing external discipline with internal behavioral incentives, such as value systems and voice. Second, organization members making firm-specific investments are motivated by broad participation rights and co-determination. Third, the Benedictines are able to apply supportive external control mechanisms, which are not perceived as controlling.

Key words: **corporate governance, financial crisis, psychological economics, monasteries, principal agency theory, Benedictine Order**

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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 Malfèr (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), Kent D. Miller (Michigan State University), Wenzel Matiaske (Helmut-Schmidt-University Hamburg) and two anonymous reviewers. We also thank Robert Findlow and Isabel Ellenberger for improving the English..

Article received: July 15, 2009
Revised version accepted after double blind review: October 6, 2009.

DOI 10.1688/1861-9908_mrev_2010_01_Inauen
ISSN (print) 0935-9915, ISSN (internet) 1861-9908
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