

## HIGHER EDUCATION GOVERNANCE ANALYSIS (EMPIRICAL STUDY ON MUHAMMADIYAH UNIVERSITY IN JAKARTA)

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### Abstract

*Functioning of the role of group manager in the management of the organization can improve productivity. However, the function is also a phenomenon in the relationship between principals and agents, where there is a divergence of interests between owners and managers of organizations who then create the agency problem, because basically the agent has their own interests. This is where the role of control is needed to suppress agency problems. Departure from this idea, the research aim is to understand the mechanisms of control and rational behavior of agents in the practices of elections, financial reporting, and compensation. The study concludes: 1) the norms and cultural values appear to be more prominent than economic value in the control mechanism. Norms and values restrict the organization's behavior and justify the sanction for any inappropriate behavior in the system. Lack of commitment and socialization occur relatively high on the system of organization members who continually give up some or all personal interests to become a member of Muhammadiyah; 2) the rationality that is developed within the organization is a form of mental construction agent based on social experience, character local and specification. Muhammadiyah values tradition that was developed by Ahmad Dahlan have become the source of agent, especially in the rationalization measures gain legitimacy from the environment.*

**Keywords:** *Agency theory, Institutional theory, The control mechanism, Isomorphism.*

### 1. INTRODUCTION

The functioning of the group manager's role in managing a corporation or organization can increase the productivity of a corporation or an organization (K Berten, 2000). However, this function does not eliminate the phenomenon of the relationship between principal and agent, where there is a difference of interest between the owner and manager of the corporation. This is a consequence of the delegation of work from the principal to the agent (Jensen and Meckling, 1976). Delegation of management authority from the principal to the agent in an organization opens up opportunities to cause agency problems (Lipping Xu, 2004) because basically the agent has an opportunistic attitude to himself (Hitt and Ireland, 1995).

The conflict of interest between the principal and the agent conceptually gives birth to an agency problem, which occurs when the agent prioritizes his own interests over the interests of the principal (Hatch, 2000). Eisenhardt said that the agency problem is characterized by a conflict between the expectations or goals of the principal and the agent, and the principal has difficulty verifying what the agent is actually doing (Eisenhardt, 1989). Meanwhile, according to Kilick, agency problems arise when maximizing the utility function of more than one party requires a form of cooperative action and when the target function of the parties is different (Killick, 1997).

Thus, the agency problem is defined as a conflict that arises between the principal and the agent due to the tendency of the agent to be more concerned with his goals than the company's goals. Agency problems have the potential to occur in any organization, especially if the organization is getting bigger. The results of research conducted by Deni and Khomsiyah concluded that large organizations may have greater agency problems because agents are more difficult to monitor.

The phenomenon of the principal-agent relationship that raises agency problems is interesting to study if you look back at the facts that occur in the field, especially in the case at Muhammadiyah Higher Education. Normatively, Muhammadiyah Higher Education is part of the Muhammadiyah Business Charity which is managed by implementing managerial practices. The Muhammadiyah Central Executive as the owner (principal) of Muhammadiyah Higher Education (PTM) has delegated its authority to parties who have managerial expertise to manage Muhammadiyah Higher Education. In this delegation, the management of Muhammadiyah Higher Education, for example, is allowed to arrange and provide payroll as an intensive mechanism for leaders and employees of Muhammadiyah Higher Education.

According to agency theory, the actions or behavior of managers (agents) who prioritize their own interests according to agency theory can be prevented, limited, and controlled by using a control mechanism (Oliver Hart, 1990) or a control mechanism (Eisenhardt, 1988). Based on the idea of agency theory, this research is intended to explore the control mechanisms applied in Muhammadiyah universities related to the agency problem described above.

In the development of theory, the issue of organizational control has been widely studied by various disciplines, including finance, accounting, information management systems and organizational theory. This study places the study of organizational control from organizational theory, which includes agency theory.

In relation to the practice of providing incentives, as a form of principal control mechanism, it is conceptually interesting to study further. This interest is based on the condition where control mechanisms in the form of incentives have received much attention from researchers. Generally, various studies related to this concern were conducted to examine the effect of incentive compensation on organizational performance (Core, 2003) both of which explained the positive and negative relationship (Welbourne and Linda, 1999). The orientation of research since the last 70 years has been largely devoted to the falsification of the basic premise of agency theory, namely the relationship between incentives and performance. This premise contains: first, agency theory implicitly assumes that employees interpret incentive compensation as an incentive to work harder; second, based on this interpretation, employees are assumed to put in more effort; and third, the more effort will boost the company's performance (Welch, 2004).

The great orientation to the falsification of the premise makes the lack of explanations for the conflicts that occur between the principal and the agent (Barkema and Mejia, 2002). The assumption that agents use their rationality based on the function of maximizing efficiency does not seem to always be fully explained by the agency theory approach (Eisenhardt, 1988). This paper tries to see the control mechanisms used in managing agency problems as well as rational behavior which underlies it.

### **1.1 Definition And Assumption Of Agency Theory**

Agency theory was born from the thoughts of Berle and Means (1932) which examined the transfer of authority from owners (owners) to managers (agents) (Desai, 1998). The two researchers suggested that managers are people who cannot be fully trusted and have separate goals from principal goals (Halacmi, 1997). The results of the research of the two experts then strengthened the attention to the agency relationship phenomenon. The terms agency relationship, agency approach or principal-agent relationship later also emerged, which are usually used interchangeably to describe the many and various functional and contractual relationships between principals and agents.

Principal-agent studies at the beginning of development were mostly carried out by Spencer and Zeckhauser (1971), Ross (1973), Jensen and Mackling (1976). In its development, studies from agency theory have absorbed the attention of various disciplines, including economics,

finance, accounting, law, organization, strategy, and human resources development (Akdere and A. Ross, 2006). However, the development of attention to agency theory essentially discusses the phenomenon of agency relations, where a certain party (principal) delegates work to another party/agent (Ungtusanatham, Rabinovich, Ashenbaum, and Wallin, 2007).

Agency theory is based on several assumptions. The first assumption is about human nature. This assumption emphasizes that humans always prioritize their own interests (self-interest), always try to avoid risk (risk-aversion), and humans are considered to have limited rationality (bounded rationality). Second, the assumption about the organization, in this assumption the organization is considered to always have a conflict of objectives between interested parties, the existence of asymmetric information (asymmetric information) between the principal and agent, and efficiency as an effectiveness criterion. Third, the assumption of information is that information is a commodity that can be traded (information as a purchasable commodity).

The phenomenon of agency relations is becoming increasingly interesting, because it raises its own problems, especially the issue of moral hazard and adverse selection. This moral hazard is related to the problem of costs incurred by the principal to protect the interests of the principal from the agent's decisions due to the assumption that the agent has more information than the principal.

In order to avoid these problems, for example, it is necessary to build later efforts to reduce the possibility that agents will undermine (Arrow, 1998).

Agency theory here then focuses on the direction around an important function in corporations, namely agent monitoring (Fleisher, Hasard & Kliper, 1998; Minzberg, 1983; Waldo, 1985), so that one of the important contributions of agency theory to corporations is to develop strategies and frameworks, directions (guidelines) to be implemented as well as the effectiveness of control or monitoring.

The core idea of the agency relationship is the separation between ownership and control which focuses on control to the agent, which then has implications for discussing conflicts of interest between agents and principals due to the asymmetry of Information.

Broadly speaking, agency theory is intended to solve two problems that can occur in agency relationships. First, agency problems arise when: a) the desires or goals of the principal and agent are in conflict; and b) it is expensive for the principal to verify what the agent actually does.

Second, there is a risk sharing problem that arises when the principal and agent have different attitudes towards risk.

Here is a summary regarding the assumptions in agency theory or agency. Table 1 presents an overview of some assumptions derived from human, organizational, and information assumptions. From the various assumptions built by agency theory, it appears that the separation between company ownership begins with the granting of residual control rights to agents, namely the right to make decisions under certain conditions.

Residual control rights owned by the agent allow it to be misused and will cause agency problems which can be interpreted by the difficulty of the principal in obtaining confidence that the principal's assets have been properly managed. Agents can expropriate the principal's wealth and lead to an opportunistic attitude.

**Table 1 Agency Theory Assumptions**

<i>Key Idea</i>	Agent principal relationship
Analysis unit	Contract between principal and agent
Agent attitude assumption	Selfish Bounded rationality Risk aversion Goal conflict
Organization assumption	Efficiency used as a criterion Information asymmetry between principal and agent
Information assumption	Information is commodity
Contract Problem	Moral hazard and adverse selection (agent) Risk sharing

Source: Eisenhardt (1989: 59).

Expropriation carried out by agents can be conducted in various forms, ranging from embezzlement, selling products that are lower than the market price and the most severe expropriation carried out by agents can be in the form of maintaining their position or job position even though they are no longer competent or qualified in running their business. Agents who are not qualified but still want to survive when they are about to be replaced are a manifestation of the most expensive agency problem.

## **2. IMPLEMENTATION METHOD**

### **2.1 Agency Problem**

Agents, as the assumption has been explained above, tend to prioritize their interests over the interests of the principal. This tendency eventually raises its own problems or agency problems. Agency theory that has developed much is generally directed to overcome the problems that can occur in agency relationships.

Agency problems basically, again, arise because: a) there is a conflict of interest between the principal and the agent in this case the principal's contract with the agent can bring the interests of the two closer together; b) the agent tries to avoid risk. Furthermore, Barney and Hesterly state that an agency relationship will arise when one party in the transaction (the principal) delegate authority to another party (the agent) and the principal's welfare is influenced by the agent; (Halacmi, 1997) and c) the behavior of the agent is difficult to monitor. (Carr and Brower, 1996) Meanwhile, the elements that can be used to limit the behavior of deviant agents, for example according to Ross, are: (1) take over – fear of being taken over encourages agents to take actions that will maximize the interests of the principal; and (2) competition in the managerial labor market may encourage agents to act in the best interests of the principal.

Again, in relation to an effort to overcome the tendency of the agent's deviant attitude and based on the unit of analysis of agency theory, the key lies in determining the contract that underlies the relationship between the principal and the agent itself. Jensen and Meckling further describe an agent relationship as a contract in which one party called the principal involves another party, namely the agent, to perform services for the principal. The main party, namely the principal, will delegate some decision-making authority to the agent.

The principal has an expectation that the agent can fulfill the interests of the principal. On the one hand, failure to draw up a contract will lead to an opportunistic attitude towards the agent. Opportunism is an attitude or series of actions or behaviors that seek profit for their own



interests in a cunning or fraudulent manner. This attitude appears in the form of avoiding tasks, work and responsibilities.

On the other hand, managers also incur costs to pursue their own goals even if this is of little benefit to agents. Jensen and Meckling argue that this is inefficiency. Jensen and Meckling further proposed a way to overcome this, namely reducing incentives for managers and increasing decisions to maximize firm value.

Agency problems thus arise because of the imperfection of the contract on the actions of the agent's decisions that affect the welfare of the agent and the welfare of the principal. The existence of this problem raises ways to influence agents to act much better than the interests of the principal.

The economic consequence of the agency problem is agency costs. Agency cost can be seen as a loss of value to shareholders, this agency cost arises from a deviation of interests between shareholders and managers. Jensen and Meckling (1976) describe agency costs as the total costs incurred for monitoring, bonding costs, and residual loss.

To overcome the agency problem, agency relationship theory identifies and determines the choice between two types of formal contracts to control (governed) principal-agent relationships, first based on the behavior of agents (behavioral based contracts); and secondly based on outcome (outcome based contract). In this regard, the accuracy of contract selection refers to the efficiency of the trade-off between: a) the cost of obtaining information to monitor the agent's behavior, and b) the cost of determining outcomes and transferring risk to the agent.

In principle, contracts in agency theory can be used to overcome agency problems, but contracts will cause several weaknesses, at least in two respects. First, in uncertain conditions the contracting process will become more complicated. Second, due to difficulties, making contracts that do not describe the exact specifications will lead to opportunistic behavior from agents (Rubin, 1990)

Opportunism is the strongest form of self-interest which refers to the disclosure, distortion or incomplete information, especially in efforts that can be calculated as misdirection, disguise/ concealment or confusion (Williamson, 1986). Organizations that are highly dependent on one partner or small organizations have a high level of opportunism (Jones, 1993). The reasons why managers deviate from the provisions or apply opportunistic are: 1) managers or agents tend to maintain their positions; and 2) the manager or agent wants success through projects run in organizations that have been successful.

## 2.2 Control Mechanism

Agency theory is one of the main issues or discussions in organizational theory, because it relates to aspects and issues of control in modern organizations. The agency relationship is a contract between the principal and the agent. Based on the description above, agency theory is a study directed at resolving agency conflicts through contract and control mechanisms.

Conflicts will escalate when ownership is widely distributed, which causes owners to not exercise effective control over agents.

The opportunistic behavior of agents in the agency theory view can also be prevented by the application of control. Control is the goal of agency relationships. Control is used to ensure that the agent's actions meet the interests or objectives of the principal (White). The concept of control can be interpreted as an act of trying to make an activity carried out in accordance with what has been outlined or assessing whether it has been carried out as planned (Regar, 2000).

Agency is control, said Horizon. Control is the agency's goal. Control as the authority to govern and direct indirectly, where subordinate compliance comes from the hierarchical and legal authority behind its direction (Widodo, 2001). Sources of authority to exercise control can

come from outside and from within the organization. External sources can be in the form of laws and regulations (rules) which are used as the standard of behavior of subordinates (conduct of subordinates).

Control helps organizations to provide assurance to the public and customers for consistent and fair treatment (Wart, 1998). The control function is directed at monitoring inputs, processes and resource scarcity (Lee and Susan, 1992) where the scarcity of resources is the focus of efforts to resolve the agency theory in the form of the high cost of getting the party assigned to obtain management authority.

Jensen and Ruback define corporate control as: "The right to determine the management of various company resources which can be in the form of the right to appoint, dismiss and arrange compensation from top level managers" (Smith, 1990). Organizational control or corporate control can be directed to maintain wealth, increase the efficiency of the company's operations and to encourage compliance with policies that have been outlined by the company as risk exposures (Wilkinson, 1989).

One model or control mechanism ('model of governance'), for example, was also proposed by Pound, who divided it into 2 (two), namely 'the managed corporation' and the model of the governed corporation. (Pound, 2000) Pound further explains that "currently the application of the control model in the form of 'the managed corporation' is no longer appropriate and appropriate, because most of the company's failures do not come from an imbalance of power but from failures in the decision-making process."

The 'managed corporation' model is basically a control model that focuses on the power aspect. Power is different from authority. Authority is defined as to act or to command others to act towards the achievement of organizational goals. Its unique characteristic is that this right has a legal basis based on the position that has the authority in the organization. Authority goes hand in hand with work. If a person leaves a managerial job, then that person relinquishes the authority involved in the position.

### 2.3 Agent's Rational Behavior

Institutional theory begins with the assumption that institutions act in their best interests, as individuals do. DiMaggio discusses this relationship between interest theory and institutional theory by explaining "...*that behavior is driven by and something that can be understood in terms of the interests of human actors, either individually or as entities within a class, organization, or organizational subunit, who strive to gain (personal) goal*" (DiMaggio and Walter Powell, 1998).

Why do individual actors act in their own interest even in larger units? Institutional theory assumes that predictability and group life are the reasons for changing from individual agency interest motivations to institutional motivations.

Di Maggio further explains that: "...a preference for certainty and predictability in organizational life and interest in organizational life enhances individual interests." Thus it can be concluded that individual interests become, and are integral, in the interests of institutions.

Institutional theory also assumes that the organization is a unitary entity and survives changes from outside. Institutional theory seeks to describe how organizations respond to their environment, especially to changes in the environment. This theory emphasizes how change is actually avoided but the organization creates the impression of change but in fact avoids the change and persists with existing structures and processes (Drumm, 2000). The essence of institutional theory is that what an organization actually achieves differs markedly from what it is supposed to achieve.

The concept of institutional theory is built on the assumption that institutional goodness is good for each individual. The second concept is legitimacy, the authority of an institution to carry out its business, which can be obtained from a legal mandate, achieved through a long time in the process, and can be created through public perception or obtained from a combination of the three. Status that is also a source of legitimacy is the status of an expert (expert status), skills or reputation for having the resources to carry out certain services or jobs.

Institutional theory also constructs concepts to explain how organizations respond to and/or protect themselves from external change. This concept includes isomorphism, decoupling, conducting rituals of confidence, and avoiding inspection.

### 3. RESULTS AND DISCUSSION

#### 3.1 Rector Selection Practice

The agency relationship is a contract between the principal and the agent. Agency relationship in agency theory is a study directed at resolving agency conflicts through contractual and control mechanisms. Conflicts will escalate when ownership is widely distributed, which causes owners to not exercise effective control over agents.

Considering the behavior of opportunistic agents in the view of agency theory, control is the goal of the agency relationship. Control can be interpreted as an action to ensure that an activity is carried out in accordance with what has been outlined or to assess whether it has been carried out as planned, used to ensure that the agent's actions meet the interests or objectives of the principal.

Control as the authority to govern and direct indirectly, where subordinate compliance comes from the hierarchical and legal authority behind its direction. Sources of authority to exercise control can come from outside and from within the organization. External sources can be in the form of laws and regulations (rules) which are used as the standard of behavior of subordinates (conduct of subordinates). Control helps organizations to provide assurance to the public and customers for consistent and fair treatment. The control function is directed at monitoring inputs, processes and resource scarcity (Lee and Susan, 1992) Where resource scarcity is the focus of efforts to resolve agency theory in the form of expensive parties assigned to obtain management authority.

The control mechanisms observed in the practice of choosing a Chancellor are administrative control, rules control, and normative control. Visible administrative controls include organizational controls, authorization controls, and documentation controls.

Control Mechanism Rules are forms of control mechanism that is based on organizational actions that have roots in general rules and are philosophical. This mechanism applies internally, namely the control of the agent's behavior as the cause of the demands of the organization itself which is based on the applicable rules and philosophical foundations. Meanwhile, normative control is a form of control based on certain professional standards.

The introduction to the theoretical or conceptual framework above makes it a tool for researchers to understand the phenomenon of Chancellor Election practice. This understanding is described in the following discussion.

The rector selection process seems to put forward a good and reflective choice. A rational and good political decision can be said to meet three criteria, namely: 'puts forward the facts' (not doctrinal), 'future-oriented' (not only looking at the problem narrowly), and 'consider the interests of many people' (not only selfish) (Offe and Ulrich Preuss, 1991). The rational decision above can be understood if you look at the criteria for professionalism which is an important requirement.

Even though the process of appointing the Chancellor of UMJ takes a long time and there is a latent conflict, the process of appointing the Chancellor has entered a new phase. There are 108 members of the senate of the University of Muhammadiyah Jakarta who have the

right to vote, while 62 of the 108 senate members who have become professors. With the number of senate members who have become professors quite a lot, it can actually be a capital for PTM, especially UMJ to change the point of view of democracy in the election of the rector. The source of legitimacy is not a desire that is determined by the individual, but is more emphasized in the process of forming it (Bernard Manin, 1987).

The election process which takes 9 (nine) months is carried out by complying with all applicable regulations and with a prudent approach so that an election process takes place in accordance with the breath of democracy. Prudence is indicated by the stages of consultation with the Muhammadiyah organization.

Prospective candidates before becoming candidates must pass the fit and proper test, after becoming a candidate for the election of candidates, approval is requested from the Assembly. The stages taken by the committee are aimed at achieving consistency and legitimacy that can be accounted for. The challenges faced by the democratic process are more related to 'the introduction of legitimacy formulation procedures in a wise, consistent, socially valid, and responsible manner'.

The assignment of management responsibilities given by the Central Leadership of Muhammadiyah to the Leaders of Muhammadiyah Higher Education is an agency relationship that must be followed by the granting of authority. Jensen and Meckling stated that agency relationship is a contract between one party (principal) that uses another party (agent) to provide services for the interests of the principal by delegating some authority or authority to make decisions to the agent. The essence of the agency relationship is the separation between ownership and control which focuses on control to the agent.

The agency relationship is a contract between two parties that contains the delegation of work and authority by the principal to the agent, so that the second party, namely the agent, is willing to do the work for the benefit of the principal. Contracts can be implicit or explicit.

The explicit contract in the practice of choosing a rector is qaidah. If you look further into the meaning of Qaidah, then the control mechanism applied is administrative, which is characterized by authorization control and documentation control, all of which lead to the reference to Qaidah.

However, it is interesting to observe further. If during the Pre-Election stage administrative control is running, in the Nomination Stage running is normative control, which is based on professional standards. Indications of this professionalism can be seen in the long process from the pre-requisites of candidates who submit to the fit and proper test process.

Two control mechanisms that work together in the practice of Chancellor Election. However, it is also interesting to understand that the basis of professionalism does not seem to be characterized only by normative control, but also by rule control. The control of these rules is even reflected in the Rector Appointment Phase, where the process of determining the Chancellor is finally legalized with generally accepted rules. The Senate only has the right to vote, not vote. Muhammadiyah Regional Leaders give consideration and the Research and Development Council proposes to PP Muhammadiyah after receiving a report on the results of the election by the members of the senate and the consideration of candidates by the PWM.

Thus, the Appointment of Muhammadiyah Higher Education Leaders is an authority possessed by the Muhammadiyah Central Leadership which is not delegated to elements below it, either to the Research and Development Council, Muhammadiyah Regional Leaders as Supervisors of Muhammadiyah Higher Education in their environment and members of the PTM Senate.

Return to the requirements of professionalism that characterize normative control. If the requirements for professionalism are examined further, it appears that the content of



professionalism itself is a philosophical view held by PTM. This shows that normative control is also implied in the control of rules. This can be seen, for example, in the description below.

Professionalism is defined as doing something as a profession, main job, not as a free time filler or just a hobby (Frans Magnis Seseno, 1991). While the meaning of professionalism that comes from the Qur'an and Hadith has the principles, (Praja, 2003): a) I'malu ala Mekanatikum (work according to capacity and expertise), b) ahsanu amala (work as much as possible), c) ya'mal ala syakitrain (work in accordance with the field of expertise), d) charitable shalih (work in accordance with appropriateness and propriety), e) amal khayrn (good work that provides value and use for many people) and f) expertyah (has expertise in field of work). The meaning of professionalism from some of the opinions above can be identified as a serious will accompanied by competence in order to provide value for users of the profession. Competence can be created if someone has the knowledge, motivation and time.

### 3.2 Financial Reporting Practices

The control mechanism for Financial Reporting Practices at a glance shows that accounting controls are in place. This can be seen from the reporting process and the content of the report itself.

The reality of financial management of Muhammadiyah Higher Education can be grouped into small business entities. This group has several characteristics. First characteristic is the limited segregation of duties. Small business entities are characterized by the allocation of fewer resources to the accounting and finance functions than large businesses, because it is not economical to hire employees with specific accounting skills.

Although it is the responsibility of management to maintain the security of assets and maintain an adequate accounting system, generally in small businesses, management focuses more on operational areas, such as sales and marketing. This feature is very attached to Muhammadiyah Higher Education, accounting staff as managers of systems and financial reporting are not owned by PTM and Standard Operating Procedures are also not owned.

The consequences of these inherent characteristics are first, inadequate record keeping or informal implementation. Therefore, there is a risk that the financial statements will be inaccurate and/or incomplete. The management of small business entities generally places greater trust in the auditors to assist them in the preparation of accounting records and financial statements. Therefore, management often assumes that management has abdicated its responsibility in preparing accurate and/or complete financial reporting.

The second characteristic is the domination by senior management. Managers of small business entities who actively participate in managing these entities can dominate the operations of the entity in all major aspects such as the structure of internal control and preparation of financial statements. This situation can benefit the entity, because such dominance can cover weaknesses in internal control procedures due to limited segregation of duties. In other words, the weaknesses in the internal control structure caused by the limited segregation of duties can be covered by direct control carried out by the manager.

In addition to the advantages as mentioned above, the existence of such dominance has a major weakness, namely the manager can override the entity's internal control (management override). The manager has the opportunity to override the established procedure because it has a position for it. Thus the risk of fraud committed by the manager becomes greater. For example, managers can direct employees to make expenses that should not be incurred due to the absence of valid documents.

The internal control structure contains policies and procedures to obtain adequate assurance that the objectives of the business unit can be achieved. The internal control structure consists of three elements, namely: control environment, accounting system, and control procedures. However, due to the weakness of internal control that occurs in Muhammadiyah Higher Education, it is still found that the form of the RAPB prepared by the PTM leadership is

not uniform, some are presented in a general form and some are also presented in detail from each budget item.

In addition to the non-uniform form, there is also the non-functioning of the BPH PTM Daily Implementing Body in the preparation of the PTM RAPB, coming and directly signing it, the Muhammadiyah Regional Leadership informant conveyed the process of preparing the RAPB. The results of the author's observations that the senate considerations in the formulation of the RAPB of one of the PTMs were also not carried out, but the RAPB was approved by the Ditlibang Assembly to become the Expenditure Budget. This condition shows that it is increasingly clear that the dominant control mechanism is rules and mimetic isomorphism in the Muhammadiyah Higher Education environment.

If we look further into the characteristics of internal structural controls, these controls can be categorized into accounting controls and administrative controls (AICPA, 1973). Accounting controls consist of organizational plans and procedures and records concerning the safeguarding of assets and the reliability of financial records and are therefore designed to provide adequate assurance. Meanwhile, administrative control includes organizational plans and procedures as well as records in connection with the decision-making process that leads to management authorization.

Even if accounting controls or administrative controls are implemented, in this case, the principal's control is not effective in making the agent behave in accordance with the principal's wishes. The agent still makes a very simple report and PP Muhammadiyah still considers it inappropriate but accepts it. PP Muhammadiyah appears to be tolerant of PTM's violation of the rules of financial reporting.

The stipulations regarding liability that have been included in the PTM Qaidah are not provisions/regulations that agents must comply with. The agent's birthday violation is still tolerated by the principal and is a common pattern of wrongdoing in PTMs. Obviously agent behavior like this makes it difficult and continues to sow problems with the principal without being able to impose sanctions.

In dealing with Reporting Practices in situations as described above, PTM harmonizes the financial reporting model which is common practice among PTMs and which has been implemented so far even though PP Muhammadiyah has complained and is considered non-standard.

The rational behavior of agents is not solely controlled by the interests of the principal but by the drive to gain legitimacy from donors. PTM's financial statements are based on the values of responsibility and trusts that are widely applicable among PTMs. The PTM tries to gain legitimacy by continuing to imitate the financial reporting practices of units in the PTM population.

The mimetic isomorphism mechanism as a model for defending itself from external changes—namely the financial audit by an independent auditor appointed by the LPPK and pressure from PP Muhammadiyah to change financial reporting standards—was responded to by PTM by continuing to make reports like other PTMs, which were still accepted by PP Muhammadiyah. . The rationality of actors (agents, PTM) who imitate similar practices is directed to defend the organization from external changes as well as to maintain legitimacy from the external environment, namely the people.

### 3.3 Compensation Practice

Incentives received directly by agents are in two forms: material and non-material. Material incentives (money) are given directly by PTM in 'perfunctory' amount. This means that this material incentive from the perspective of the interviewed agent is still not feasible.

Especially when compared to the incentives provided by other similar universities. The non-material incentives felt by agents in the form of prestige and inner satisfaction—which are discussed with devotion and volunteerism—as well as the alignment of personal goals with the organization. That is, existential satisfaction by being part of a PTM organization is felt as an incentive in the form of existential values, namely identifying organizational goals with personal goals.

Both types of incentives seem to contribute to the rational behavior of agents which are directly related to organizational survival. Material incentives are rewards that are deemed inappropriate. Although the incentives received are not feasible, agents behave loyally to PTM. Meanwhile, non-material incentives tend to have more value, namely existential values, compared to the material incentives in the form of salaries.

When viewed from the aspect of motivation, motivation is generally always associated with the element of need, where the need will be the basis, reason or what encourages someone to act and do a job. According to Drucker, someone willing to work for a non-profit organization has at least two motivations/expectations.

First, nonprofit organizations have a clear mission, a mission that controls everything the organization does. Second, it can be involved in making decisions that affect the work that is his duty and the work of the organization as a whole and there is a desire to increase the assignment that is more difficult to require greater responsibility as evidence of the performance of the work he is doing (Drucker, 2006). , Finegold and Lawler that money is not the main motivation of an agent/manager, because there are other needs that play a role in motivating the actions and behavior of agents towards the expected (Conger, 2000).

Practically needs at the level of need will not last long. It is due to the fact that management has provided for physiological and safety needs has been able to change the motivational emphasis on social and possibly egoistic needs. If there are job opportunities to satisfy higher-level needs, the desire to satisfy those needs will be eliminated by reflecting the loss of those needs.

If we look further at the agent's view of incentives, namely those who value them more as elements of trust, devotion or tradition, the findings of this study strengthen several other researchers who try to understand the issue of incentives from the perspective of agency theory and institutional. St-Onge et al (2001), for example, explain that incentive management is not used exclusively to reduce agency problems; but rather used as a symbolic tool, in the sense of responding to a company's desire to imitate the practices of other companies in its industry. Even if this imitation does not result in better efficiency, companies use this symbolic tool as part of gaining acceptance from the environment according to the social context (Allez, 2006).

However, non-material incentives are not substitutes for material incentives but are complementary. Therefore, it is felt that there is a need for an appropriate material compensation pattern to fulfill the interests of the association. Goodwill is not a substitute for organization and leadership. It is not a substitute for accountability, performance and results. Everything is still needed managerial ability, ability to organize, direct, motivate, control actions for the benefit of the association. Conservation values are not completely independent of the values of the first type (Simon, 1976).

Identification of personal goals with organizational goals is important for PTM's survival. Compliance with Muhammadiyah values acts as an effective internal control function on the rationality of agents so that they are not co-opted with the drive to achieve mere material gains as assumed in agency theory, and PTM still exists.

There are indications that agents need greater material incentives. However, identification with the values of Muhammadiyah organizations tends to complement the weaknesses of material incentives. This compliance practice, known in institutional theory as mimetic terminology, is very important for PTM survival because it mitigates agency problems.

In addition, compliance with Muhammadiyah values indicates that agents follow a model that is socially acceptable or legitimized within the scope of the Muhammadiyah ecosystem and at the same time it gains legitimacy.

Problems that arise related to agency problems have the opportunity to be resolved with an institutional approach.

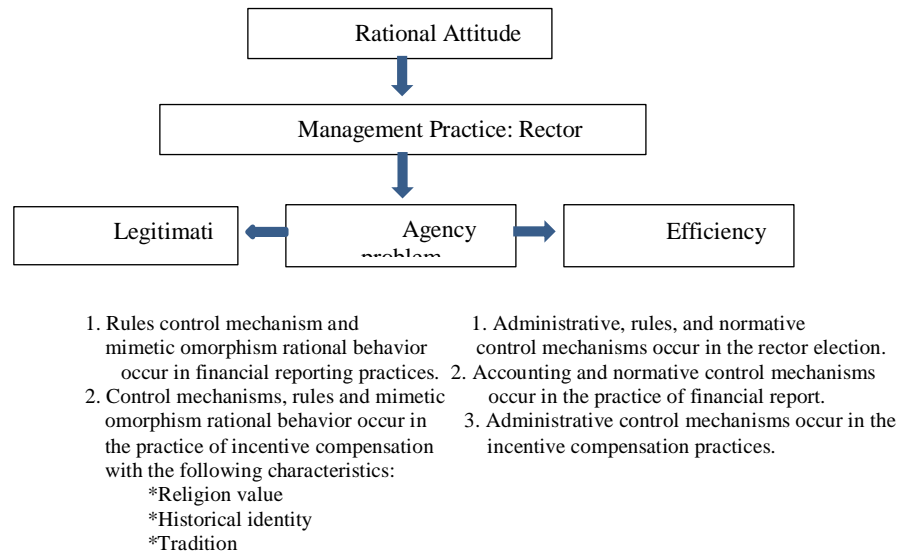


Figure 3 Research Finding

As a summary of the research findings, Figure 3 presents an outline of the results of this study. The results of the field research provide an understanding that administrative, rule, and normative control mechanisms are prominent in the Practice of Rector Selection and Financial Reporting, in addition to accounting controls. Meanwhile, the rule control mechanism is the dominant color in the Incentive Compensation Practice. If viewed from the rational behavior underlying it, mimetic and normative isomorphism is the most underlying practice of incentive compensation and financial reporting.

In terms of incentives, agents perceive relatively minor economic incentives. The agent saw that raising Muhammadiyah into a change organization was considered the highest value as was the goal of the founder of Muhammadiyah Higher Education. Mimetic isomorphism that underlies agent rationalism is such as: religious values, historical identities, and traditions.

#### 4. CONCLUSION

This study resulted in two main conclusions. Each conclusion is explained further with a summary description of the findings as presented in the previous section.

Control mechanisms can be based on economic and cultural values. In the case of PT Muhammadiyah Jakarta, cultural values as a form of control appear to be more prominent than economic values. The management of agency problems is carried out with a control mechanism that develops from the roots of the Muhammadiyah tradition of Ahmad Dahlan. This conclusion reaffirms Ouchi's proposition that organizational norms and values have restricted behavior and



justified the sanction of any inappropriate behavior within the system. This also shows that there is a relatively high level of commitment and socialization in the system from organizational members who continuously sacrifice some or all of their personal interests to become members of Muhammadiyah.

A typical description of the characteristics of the control mechanisms used in agency problems that apply in Muhammadiyah Higher Education is the administrative control mechanism, rules control, and accounting control. Administrative control mechanisms, which include organizational plans and procedures as well as records relating to the decision-making process leading to management authorization, are prominent in the practice of Chancellor Elections. Meanwhile, the rules control mechanism is observed in the practice of incentive compensation and financial reporting. The characteristics of the rules control mechanism are based on organizational actions that have been rooted in general rules as well as philosophical in nature. This mechanism applies internally, namely the control of the agent's behavior as the cause of the demands of the organization itself which is based on the applicable rules and philosophical foundations. Finally, accounting controls appear in the practice of financial reporting. These accounting controls consist of organizational plans and procedures and records concerning the safeguarding of assets and the reliability of financial records and are therefore designed to provide adequate assurance. However, the practice of financial reporting is not only based on accounting controls but also rules control. This can be seen in the practice of financial reporting, which even though it has referred to the standard financial reporting rules, its implementation is not accompanied by follow-up sanctions.

The existence of a philosophical bond that underlies the practice of incentive compensation and financial reporting, namely religious values, makes the control mechanism in these practices appear more stable. The relatively minimal conflicts that occur are an indication of the dominance of the rules control mechanism.

The rationality that is built in the organization is a form of mental construction of agents based on social experience, local and specific. The tradition of Muhammadiyah values developed by Adhmad Dahlan has become a source of rationalization of agents' actions, especially in gaining legitimacy from the environment. This conclusion supports St-Onge's proposition that norms and values are not solely used by management to exclusively reduce agency problems; but rather used as a symbolic tool, in the sense of responding to the desire of the PT Muhammadiyah Jakarta organization to imitate the practices of other Muhammadiyah universities. Even if this imitation does not lead to better efficiency, companies use this symbolic tool as part of gaining acceptance from the environment according to the social context.

A typical feature of the characteristics of rational agent behavior observed in the practice of incentive compensation, financial reporting, and the election of a rector is mimetic isomorphism. Isomorphism is a process when the units in a population, because they face the same environmental conditions, adapt and become more homogeneous because they respond to changes in the environment. This isomorphism is an agent or organization's way of dealing with change but at the same time the organization maintains the structure that previously existed. Mimetic isomorphism is a process of responding to changes that occur when there is uncertainty inside and outside the organization. In situations like this, agents or organizations will tend to imitate other organizations.

Mimetic isomorphism is most evident in the practice of incentive compensation. The agent views that the incentives obtained from Muhammadiyah universities are more felt in the context of values and traditions. That is, the values that the organization carries as mandated work and born from a strong tradition become a source of strong incentives for agents to act in and on behalf of the organization.

The relationship between the agent (PTM manager) and the principal (PP Muhammadiyah) cannot be fully explained by agency theory, especially if you look at the rationality of the agent's behavior. Agent rationality also does not indicate a motive to get optimal profit. The prominent motive is the agent's efforts to preserve the organization (PTM). However, the relationship between the agent and the principal is maintained so that the PTM can continue to run.

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The ineffectiveness of the principal's control over the agent does not jeopardize the continuity of the PTM operation. More effective control over agent rationality is based on Muhammadiyah values prevailing in PTM organizations. Self-identification as part of the Muhammadiyah community plays a more important role in controlling the rationality of agents than material compensation provided by the principal. The rationality of agents who seek to preserve the organization through the practice of Incentive Compensation shows mimetic isomorphism. PTPM imitates the practices that take place in other PTMs to maintain the legitimacy of its organization.

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