



Sustainability as cultural value in islamic private higher education

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Abstract

The organizational sustainability is achieved when Islamic values are transformed into the corporate culture at IPHE (Islamic Private Higher Education). At the same time, it can reduce asymmetric information between foundations as principals with institute management as an agent. Our paper aims to determine the adverse selection and moral hazard from asymmetric information production in IPHE. Our primary data were conducted by non-parametric scale instruments from 6 IPHEs in East Java and analyzed using the Kolmogorov-Smirnov (K-S) test. This study indicated that; (1) asymmetric VMMT information between principals and agents resulted in an adverse selection problem, the assumption error the agent has a religious value; thus, it is not difficult to understand VMMT in IPHE based on spiritual matters; and (2) an outcome mechanism was found based on a contract to prevent asymmetric information. Nevertheless, a moral hazard problem was also found, i.e. when an agent as an economic human did an act that was not in the principal's interests when he did not receive an incentive reward in quality learning. In contrast, they act in the principal's interests when obtaining incentives of appropriations for research and community services.

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Introduction

Governance is a strategic determining factor in achieving organizational goals and sustainability (Aras & Crowther, 2008). Sustainability organization is achieved when governance can transform public universities' vision, mission, goals, and objectives (VMMT) to internal

and external shareholders (Salvioni et al., 2017). Thus, organizational sustainability is obtained when principals implement governance to improve the relationship of agents involved in organization management with various stakeholders as principals (Salvioni et al., 2017). Based on the previous study, adverse selection and moral hazard problems are produced by asymmetric information (Akerlof, 1970; Jensen & Meckling, 1976; Ross, 1977). When asymmetric information between universities as principals convey good quality signals by VMMT with agent acceptance, it can produce adverse selection (Suri & Adnan, 2016). As a result, a contract is needed when the principal cannot differentiate the agent's actions in serving the principal interests (Posthumus &

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Solms, 2008; Wiseman, 1999). The legal origin through a contract can reduce agent misbehaviour in civil law countries and principals in common law (Castillo-Merino & Rodríguez-Pérez, 2021).

Moreover, the theory cannot be generalized because it depends on specific contexts, conditions and limitations (Madison, 2014). Thus, there are several results. First, an adverse selection problem is produced when principals are inclined to an error in agent behaviour caused by VMMT misinformation. Therefore, there is no difference between bad and good quality agents (Suri & Adnan, 2016). The second is related to the contract relevance issue and moral hazard. When the agent's behaviour cannot be observed better, a performance output contract is carried out to control the agent's behaviour (McCaffrey, 2017).

The variation of agent behaviour can be caused by religion producing the culture, whereas the organization is located and subsequently influences the agents or principals' behaviour and decisions (Baxamusa & Jalal, 2014; La Porta, 1996) and principals (Mulyasa & Aryani, 2017). We developed an asymmetric information study in Islamic private higher education (IPHE) to understand the adverse selection and moral hazard problems. IPHE established in a Muslim-majority country reduces the asymmetric information problem because Islamic values will become a higher education culture about human status and human actions to serve God (Muchtarom, 2016; Tarihoran & Rahimah, 2019). This situation is aggravated when the complexity of organizational structures and private institutions are relatively less dependent on the government, resulting in more significant agency problems than other organizations (Sun & Xu, 2019; Reschiwati et al., 2021; Wiseman, 1999).

Our paper aimed to determine: (1) the role of organizational culture based on Islamic religious values in the occurrence of adverse selection and moral hazard problems in agency relationships; and (2) the role of outcome-based contracts in preventing adverse selection and moral hazard problems, so as to reduce deviations and help organizations achieve sustainability.

We describe this paper in 5 sessions, i.e. section 2 discusses Islamic culture: adverse selection, moral hazard and the role of outcome based contracts when adverse selection and moral hazard are found. Section 3 discusses the research method and section 4 contains the results and findings. Lastly, section 5 is the conclusion.

The significance of this study is the relevance of the presence of asymmetric information in one of the Tridharma (education, research, social services) performance due to unbalanced information in the

outcome-based contract between agents and principals. The moral hazard problem was found in the management of the agent (Jensen & Meckling, 1976) not the steward for the interests of the principals, when religion values were not transformed into an organization culture at IPHE. The result is a deviation in organizational sustainability.

Literature Review

Islamic Culture: Adverse Selection and Moral Hazard to Capture Organization Sustainability

The lemons problem phenomenon (Akerlof, 1970) explains the asymmetric information used for poor quality cars in the market. When pooling is in equilibrium, plums sellers (good quality cars) can use the warranty to signal quality to buyers who cannot tell the difference between plums and lemons. The price buyers are willing to pay the average for all rates cannot be determined. Lemon sellers are big winners, and plums sellers are big losers and indifferent buyers. Thus, asymmetric information costs are paid entirely by plum sellers. This incomplete information produces agents who do not act optimally because principals cannot distinguish between agents who work maximally for the principals' interests.

The agency relationship between them is described as two or more parties. One party is designated as a principle involving the other party as an agent to perform the principals' duties (Jensen & Meckling, 1976; Ross, 1977). Thus, asymmetric information produces adverse selection because principals do not understand agents' behaviour. This problem is generated because one party has less information than the other party (Akerlof, 1970).

Organizations are part of the broader economic and social environment, so they must adapt to sustainability (Aras & Crowther, 2008). Thus, principals disseminate VMMT to agents (internally) through the strategies, procedures, and rules implementation for achieving them and culture. Based on a previous study in China, there is a reform in the culture of education where agents are responsible for multi principals (Sun & Xu, 2019), higher education autonomy culture (Atang, 2021; Ngo & Meek, 2019). Such has been widely discussed between government and public universities (Auld, 2010; Kivistö, 2007; Raudla et al., 2015; Wiseman, 1999; Yallev et al., 2018), not all higher education depends on government funding. There are private universities whose funding depends on the foundation as owner and has broader agency problems (Sabandar et al., 2018).

Therefore, organizational sustainability can be achieved by incorporating the inclusion of social, economic, and cultural aspects into the VMMT (Aras & Crowther, 2008). Most Islamic higher education supports integrating Islamic values theory into a comprehensive culture in the education implementation (Tarihoran & Rahimah, 2019). The Islamic region contributes to students' intellectual development as human beings based on spiritual potential and skills. Thus, the result is happiness in the world. This achievement is carried out through: (1) achieving goals; (2) the organization consistently focusing on goals; (3) developing goals; (4) evaluating the education process; and (5) facilitating the implementation of the process going well (Mughtarom, 2016).

Therefore, the culture formed from Islamic values produces strategies, procedures and rules that support the VMMT achievement to obtain sustainability. When agents and principals act as human beings, it can reduce adverse selection by delivering VMMT completed information.

Hypothesis 1

The absence of Islamic values transformation as organizational culture is the cause of the information asymmetry problems at IPHE.

Outcome-Based Contract to prevent Adverse Selection and Moral Hazard Problem

Economists discuss moral hazards when contracts are executed. Thus, discussing this contractual relationship makes sense (McCaffrey, 2017). The discussion starts from the recommendation that the company or organization consists of a nexus contract (Jensen & Meckling, 1976), resulting in deviations in the manager's behaviour as agents who do not act on the principals' interests and are not involved in the management organization. Furthermore, contracts can be described in an oral or written document (Wiseman, 1999). Every individual, including agents and principals, has different characters and motivations that affect the agreed contract.

Previous research has confirmed that contracts are not only between one agent and one principal (Moe, 1984). Agency conflict occurs in all organizations and every management level in universities, companies, joint ventures, government bureaus (Jensen & Meckling, 1976). Conflicts arise when agents are evaluated by official agencies, semi-official agencies, agencies

affiliated with universities, and third-party agencies as multi-principals (Sun & Xu, 2019). This culture of autonomy aggravates problems in public higher education, which has a multi-level organizational structure. At the beginning, tax-payers as principals and legislators as agents must implement public policies. The situation change; legislators as principals monitor the performance of universities as agents who carry out public services.

Furthermore, when the university is the principal, the faculties/structures become agents. On the other hand, when the faculty senate is the principal, it autonomously monitors the university's performance so that it is in line (Wiseman, 1999). As a result, principals have difficulty observing agents' behaviour so that they are potentially prone to error (Kivistö, 2007). As a result, they measure output-based education outcomes different from other industries, namely, evaluating the transmission of knowledge, skill improvement, contributions to understanding by research and community service (Wiseman, 1999).

When bad incentives are encountered, the agent creates a moral hazard problem. The first moral hazard is covert action; namely, when you have imperfect information about agents, they can take steps that are not desired by the principal, such as lowering the quality of performance (McCaffrey, 2017). When the covert action is implicit, the second moral hazard is shirking as an explicit action. Agents have the urge to neglect their duties according to the contract agreed with the principals, in other words, fraud and malingering (Dembe & Boden, 2000). Agents are shirking because their pay is not based on their performance (Eisenhardt, 2004; Plants, 2010). The third is taking less care so that the risk is more significant than what is stated in the contract (McCaffrey, 2017).

Moral hazard produced contracts depend on the culture of legal origin, such as in civil law and common law countries (Castillo-Merino & Rodríguez-Pérez, 2021). Islamic value as culture contributes to the Indonesian education system (Mughtarom, 2016). Culture is defined by traditions, group preferences and behaviour, and ways of life. Religion consists of beliefs, values and behaviours that depend on a set of thoughts and actions derived from scripture. The location's prevalent religious denomination will affect the culture of the firm through these channels. It produces a culture where the company or organization is located, impacting people in the organization (Baxamusa & Jalal, 2014). In other research, culture determines behavioural differences between agents and principals. It results in

deviations in university motivation and commitment (Wiseman, 1999). Higher education research explains culture determines governance in aligning agent-principals in voluntary disclosures (Kivistö, 2008), such as in Malaysia (Sulaiman & Ghadas, 2021), Thailand (Rungfamai, 2008).

Starting from practice in the business world and then developing in education, Islamic values are based on three main pillars, namely ash-Sharia covering monotheism (unity), Khilafah (universal brotherhood) and justice (justice) and maqashid ash-Syariah surrounding meeting needs, income obtained from good sources, equitable distribution of income and wealth, and growth and stability (Bashir, 1998; Rice, 1999).

Analysis in the education sector, the existence of Islamic value as a culture, along with the complexity of the university organizational structure (Castillo-Merino & Rodríguez-Pérez, 2021) and the difficulty of observing agent behaviour (Yallew et al., 2018) have the potential to produce more excellent asymmetric information than other institutions. IPHE as a private university has evidence of conflict between the owner (foundation) as principals with a supervisor as an agent, which hinders improving the quality of the university (Sabandar et al., 2018). This conflict was triggered due to the incomplete context contained in the contract (Kofar-Sauri et al., 2020). When principals provide funding for private universities, of course, expect better feedback in university governance. Extended, IPHE also includes the authority to cooperatives, foundations and universities as principals. If the contract is complete and precise between principals and agents, then post-contractual theory suggests that moral hazard can be reduced.

Our contract measurement uses an in-outcome-based contract evaluation approach, not a behaviour-based approach (Wiseman, 1999). There are several reasons for choosing it. First, the measurability of the results. Whether they are easy to observe and measure, a results-based contract is more appropriate if the results are easy to measure and the consequent costs are low. Second is the certainty of the outcome so that the product is more precise. The third is the task programmability; when the agent's behaviour cannot be determined precisely, it is consequence based. Fourth, when the conflict of objectives between agents and principals is high, it is more appropriate to use outcome found. The fifth is the nature of the short-term contract so that it cannot observe the agent's behaviour, so the result is more precise. Contracts between faculty as agents and

universities, foundations and cooperatives as principals are based on evaluation of the main activity of higher education, namely learning as a mechanism for the transfer of knowledge, research and service to community (Law of The Republic of Indonesia Number 14, 2005).

Hypothesis 2

Outcome-based contracts can prevent moral hazard and adverse selection problems at IPHE.

Methodology

Private Universities (PTS) have a more significant number than State Universities (PTN) in Indonesia, precisely 67.7 percent of 4621 Universities), and 26.68 percent are private Islamic religious universities (PTAIS) (Directorate General of Higher Education, 2020). In contrast to PTN, PTAIS has a more complex statute, i.e. regulating institutions, rights, authorities, and relationships between the foundation and the chancellor as an independent manager and based on religion/Islamic values. Our study was conducted in East Java, with many institutes even though they only have 36 (4.3%) of all PTAIS in Indonesia. Our institute has a more complex organisational structure than the academy and high school.

We collected 38 primary data from 6 IPHEs in East Java using a non-parametric scale questionnaire, then we analyzed it using the Kolmogorov-Smirnov (KS) Test. Data were collected using a nominal scale questionnaire to clarify the answers of respondents (agents and principals) about the model (Wiseman, 1999) related to the balance of VMMT information between principals and agents. Second, was the linkage of incentives and performance contracts covering learning, research, and service to the community (Law of The Republic of Indonesia Number 14, 2005). Respondents from the principal element are the managers of the Foundation at IPHE, and agents from the IPHE management elements, namely, the dean, head of department, and head of unit.

The data description reports differences in the number of faculties and departments in each IPHE so that more agents are produced than principals. For example, IAI Al-Hikmah, Tuban, West Java, has three faculties, so the management unit as an agent is more significant than the university.

Table 1 Descriptive Statistics

Description	N.Obs			Percentage		
	Agents	Principals	Total	Agents	Principals	Total
Academic Position						
Teacher	0	0	0	0.00%	0.00%	0.00%
Lecturer	20	4	24	83.33%	16.67%	100.00%
Assistant Professor	6	5	11	54.55%	45.45%	100.00%
Associate Professor	0	0	0	0.00%	0.00%	0.00%
Professor	0	0	0	0.00%	0.00%	0.00%
Other	1	2	3	33.33%	66.67%	100.00%
Total	27	11	38	71.05%	28.95%	100.00%
Gender						
Man	8	6	14	57.14%	42.86%	100.00%
Woman	19	5	24	79.17%	20.83%	100.00%
Total	27	11	38	71.05%	28.95%	100.00%

Results and Discussion

Islamic Culture: Adverse Selection and Moral Hazard to Captured Organization Sustainability

Balancing information between principals and agents can reduce the asymmetric information problem. When VMMT is articulated as a form of communication of objectives from principals to agents, there is an alignment of interests between the two, resulting in organizational sustainability (Duygulu et al., 2016). Panel

A explains the significant differences in the distribution of information media for VMMT delivery between foundations as principals with agents. VMMT is the product of philosophy and organizational culture (Duygulu et al., 2016), determined by the religious value in our study. Islamic values, such as human beings who come from religious values, have not been transformed into the culture at IPHE; the result was a VMMT misunderstanding between principals and agents. Both can stimulate incentives to push toward different VMMT directions. Tables 2 and 3 provide summary and statistical detail results.

Table 2 Summary Results

Indicator in panel	p-KS	Level of significance	Results of hypothesis
VMMT Submission	0.011	.05	Accepted. There are differences of VMMT submission between agents and principals (Asymmetric information)
Submission of Performance Target Contracts	0.0534	.05	Rejected. There is no difference in Submission of Performance Target Contracts submission between agents and principals (Symmetric information)
Learning Performance Evaluation	0.011	.05	Accepted. There are differences of Learning Performance Evaluation submission between agents and principals (Asymmetric information)
Research Performance Evaluation	0.810	.05	Rejected. There is no difference in Research Performance Evaluation submission between agents and principals (Symmetric information)
Community Service Performance Evaluation	0.077	.05	Rejected. There is no difference in Community Service Performance Evaluation submission between agents and principals (Symmetric information)
Performance Evaluation Recognition	0.004	.05	Accepted. There are differences of Performance Evaluation Recognition submission between agents and principals (Asymmetric information)

Table 3, panel A declares the sustainable organization is accomplished when the foundation as principals provide direction to agents regarding policies, standards,

and procedures to get in strategy, technique, and operating procedures enabling to alignment with the vision and mission of governance. (Posthumus & Solms, 2008).

Table 3 Statistic Results

Description	N. Obs	Agent	Principals	<i>p</i> -value KS
Panel A: VMMT Submission				.011*
Formal Meeting	7	71.43%	28.57%	
Informal Meeting	2	100.00%	0.00%	
Orientation and Socialisation to the Faculty	13	76.92%	23.08%	
Written (ex. Statute, RENIP, RENSTRA, RENOP, SPMI, etc.)	16	62.50%	37.50%	
Panel B: Submission of Performance Target Contracts				.534
Formal Meeting	29	68.97%	31.03%	
Informal	1	0.00%	100.00%	
Written Contract	5	80.00%	20.00%	
Orientation to Faculty	3	100.00%	0.00%	
Panel C: Learning Performance Evaluation				.011*
Policy and has implemented learning evaluation by students	13	76.92%	23.08%	
Policy and has implemented evaluation of learning by peer teaching	11	63.64%	36.36%	
Policy and has implemented learning evaluation by the faculty/department	13	76.92%	23.08%	
Policies and has implemented learning evaluation by the university	11	72.73%	27.27%	
Panel D: Research Performance Evaluation				.810
Research result	11	63.64%	36.36%	
Number of publications	21	80.95%	19.05%	
Other	2	50.00%	50.00%	
Attend seminars/conferences	1	0.00%	100.00%	
Use of funds	1	100.00%	0.00%	
Article review	2	50.00%	50.00%	
Panel E: Community Service Performance Evaluation				.077
The result of dedication	13	84.62%	15.38%	
Number of publications	8	62.50%	37.50%	
Benefit for society	13	69.23%	30.77%	
Other	1	100.00%	0.00%	
Participate in seminars/conferences as dissemination of service results	2	0.00%	100.00%	
Accountability of funds	1	100.00%	0.00%	
Panel F: Performance Evaluation Recognition				.004*
Availability of Performance Assessment Instruments	31	74.19%	25.81%	
Periodic Revision of Performance Assessment Instruments	30	73.33%	26.67%	
Submission of Performance Assessment Results	27	70.37%	29.63%	
Awarding Promotions and Merits based on Performance	31	70.97%	29.03%	
Availability of Lecturer Evaluation Format	36	69.44%	30.56%	

Note: Institute Statute, RENIP (Plan of Development Institute), RENSTRA (strategic Planning), RENOP (Operational Planning), SPMI (System of Internal Quality Assurance)

* $p < .05$. ** $p < .01$. *** $p < .001$.

There is incomplete information that produces agent actions that are not in line with the interests of the principals and adverse selection, namely, the principals assume that the agent already has complete VMMT information, even though it does not.

Thus, the adverse selection problem, such as the analogy of plum as a good-quality car and lemon as a bad-quality car, occurs in the used-car market (Akerlof, 1970; Eisenhardt, 1989; Ross, 1973). When buyers do not know the quality of information between lemons and plums, a pooling equilibrium occurs, i.e. the average bid price. As a result, only the lemon sellers offered to the market because the price was higher, and the plum seller did not provide it because the price was lower. If the buyers are indifferent, the lemon seller is the winner, and the plum seller is the loser.

The problem of asymmetric information occurs in many cases, such as universities as principals with many faculties as agents are complex and large organizations. A conflict of goals leads to differences in vision, mission, and goals (Kivistö, 2007; Sun & Xu, 2019; Wiseman, 1999). Research by Wiseman (1999) reported asymmetric information occurs when the university as principals do not communicate well about the vision and mission to the faculty as an agent. When principals avoid monitoring costs even though they cannot perfectly observe the behaviour of agents, then asymmetric information is still found (Kivistö, 2007)

IPHE with religious values should reduce asymmetric information in increasingly complex organizations. Islamic culture places principals and agents as human beings so that their actions are not only based on their respective interests but in the context of serving God (Muchtaron, 2016). In more detail, it is explained that the alignment of interests can be obtained through a religious value-based curriculum that should be completely transformed in the organizational culture (Mulyasa & Aryani, 2017).

For adverse selection problem by principals, the agent behaves as manager as produced Islamic value is not found in the delivery of VMMT. Principals cannot differentiate between good and low-quality agents because of the asymmetric information generated. Principals' deviation from agents' results in moral hazard problems such as covert action, shirking, taking less care, expropriation (McCaffrey, 2017). Because agents' behaviour cannot be monitored ideally by principals, reducing the quantity and quality of work in IPHE performance as hidden actions are more dominantly found. Thus, principals must ensure that agents act in

their interests when an adverse selection problem occurs (Eisenhardt, 1989) through outcome-based contracts. Panel B (Table 3) has explained no difference in understanding the performance contract, where both parties have the same understanding.

In an agency relationship, we use the illustration of the agent as the seller and the principal as the buyer. When the quality of information about agents cannot be fully observed by the principal, then market failure tends to occur, or in our paper, we call such deviation from organizational sustainability. The first hypothesis is accepted; it shows that when there is asymmetric information, the outcome-based contract is needed to align the interests between principals and agents at IPHE. The organization is a nexus of an agreement between two parties, where one party as the agent acts on behalf of the other party as principals (Jensen & Meckling, 1976). Agents do not understand the communication of principals regarding IPHE objectives as stated in the VMMT, thus producing asymmetric information that hinders organizational sustainability. As a result, regulations make efforts to prevent agent behaviour from behaving opportunistically along with direct corporate management authority (Cariola et al., 2011), such as covert action, shirking, taking less care, and appropriation. Preventing agent behaviour means that the principals of the performance contract have been made to anticipate a moral hazard problem because the agent does not act following the duties as stated in the religious values.

We use the illustration of the lemon problem in two situations, namely, when the quality of the used-car is observable and when it cannot be observed by potential buyers (Akerlof, 1970; Goolsbee, 2013). When the probabilities of lemons and plums are the same, then the seller only offers plums for 8,000, but not lemons, and the buyer is only willing to pay 10,000 for plums and 0 for lemons. So when the seller and buyer have the same information, the price for plums is between 8,000 and 10,000. On the other hand, the presence of asymmetric information causes the expected value for buyers to be $0.5 \times 10,000 + 0.5 \times 0 = 5,000$. Used car buyers are willing to buy 5,000 for either lemons or plums, and as a result, only lemons are sold in the market.

Thus, when the organizational culture has not been successfully transformed from Islamic values, which should be the organizational guidelines at IPHE, IPHE only gets agents of poor quality (such as lemons). Principals assume that agents already have homogeneity of Islamic values, so they have no difficulty in

transforming these values into organizational culture at IPHE. But the fact is that agents tend to present themselves more as economic human beings, and they act not in the interests of the principal (moral hazard). This can be seen from the Learning Performance Evaluation, research performance evaluation, and community service performance evaluation. From there, we found a deviation in the achievement of organizational sustainability.

Outcome-based contract to Prevent Moral Hazard and adverse Selection Problem

Table 3, Panel B declares no difference in the performance contracts distribution between principals and agents. Panels C, D, and E explain in more detail the evaluation of learning that contains asymmetric information, contrary to the assessment of research reports that it does not collect asymmetric information. Panel F explains relationship between recognition between reward and punishment to agent. As explained earlier, the presence of asymmetric information produces an adverse selection problem for the principals, where they assess agents as having religious values so that they act as stewards. Namun yang terjadi sebaliknya, moral hazard occurs as a form of principal-agent conflict (McCaffrey, 2017) in covert action, shirking, taking less care, and appropriation. The moral hazard is difficult to measure and observe in most situations, making it difficult to follow through on the initial contract because educational services are unlike other consumer products and difficult to measure and monitor (Kivistö, 2007). In more detail, it is explained that there are differences regarding the measurement of learning performance in panel C. There is no difference in the measurement of research and community service contracts in panels D and E.

Islamic values should be the organizational culture at IPHE, namely, the equality of human positions and all activities carried out to serve God (Tarihoran & Rahimah, 2019) so that principals and agents act according to their proper function. When Islamic values have become a culture in Islamic Religion Education, including IPHE, it produces simultaneously educational activities (learning, research, and community service) with institutional strategies and monitoring productivity so that the expected strategic performance is achieved (Tischler et al., 1998).

We report learning contracts to contain asymmetric information when we find differences in performance evaluations between principals and agents. Learning

evaluation is only carried out by students to lecturers, but there is no follow-up and joint evaluation between peer-teaching, faculty, and university. The principals often do not know the results of the learning evaluation every semester, even though the assessment format is available. Whenever the information is incomplete, it can produce agency problems (Eisenhardt, 2004). As a result, agents can claim to have performed well based on their perceptions of contract performance different from those of principals. On the contrary, no asymmetric information is found; there is no difference in the perception of research performance measurement and service to community between principals and agents. However, the findings of panel F are interesting; when recognition has asymmetric information, agents are not given incentives according to performance results that are in line with principals.

Thus, asymmetric information in recognition results in different learning performances. Because there is no incentive for recognition, the agent is not motivated to organize quality learning. In contrast, when grants for research and community service are found, they work according to the interests of the principals so that there is no difference in the measurement of education performance. The agent does not always act in economic incentives when the contract is explained using the social-human interaction approach (McCaffrey, 2017). Our findings report that agents have higher expectations of incentives based on learning performance than research and community services. When agents act as economic agents, they expect promotion/tenure incentives or merit when evaluating learning performance. If Islamic values have become an organizational culture, they balance *habluminnas* and *hablumillah* actions; then they do not fully act as human economics.

Therefore, there is a requirement for a trade-off regarding the balance of the contract. The form of the agreement between the agent and the principal may be different in each country due to legal origin to control the social style of the agent's economic life and principals (La Porta et al., 2008). Sustainability is achieved when the contract can optimize the interests of shareholders, assuming that it acts on the interests of all stakeholders to prevent agent misbehaviour (Castillo-Merino & Rodríguez-Pérez, 2021). They explain the importance of balancing contracts of legal origin between common and civil law in achieving sustainability when common law focuses on preventing agent behaviour and civil law on preventing principals' behaviour. Arrangements in written documents are more effective in avoiding misbehaviour agents than oral contracts (Wiseman, 1999).

Thus, the contract becomes a guarantee when the agent deals with parties other than the principal (foundation). At the same time it proves that the contract can function as a punishment for agents who offer lemons (bad quality agents), and can function as incentives that become a mechanism in changing bad quality into good quality agents (Goolsbee, 2013). Next they make an analogy about the form of agency relationship. As in general, the principal will hire an agent according to his interest in the potential of the agent. If the agent works hard, the principal will earn a daily profit of 1,000 with a probability of 80 percent, and 20 percent will get a daily profit of 800 (resulting in an expected profit $(0.8 \times 1,000 + 0.2 \times 500 = 900)$). But if on the other hand, the agent is negligent, the probability is reversed, so that the expected daily profit is $(0.8 \times 500 + 0.2 \times 1000 = 600)$. Since the principal cannot observe the agent's behavior, there are two options: first, to provide a fixed wage and adjust the daily profit. The principal does not mind paying 150 so that agents work hard, in fact they don't like to work hard. Second, instead of paying a fixed wage of 150 and the agent cannot be observed, the principal chooses to pay the agent with a salary that varies according to his income. The agent is paid 250 when the daily profit is high (1000) with a probability of 0.80 and 0 when the daily profit is low (500) with a probability of .2.

When the wage is paid regularly to the agent at 150, the principal gets an expected daily amount of $900 - 150 = 750$. However, the agent does not get anything (by 0) when he is willing to change from being negligent, to being a hard worker and completing his duties. When working hard, he earns a wage of 250 out of an 80 percent chance of a high daily profit, so the agent earns 200 ($250 \times 0.8 = 200$). This means that there is only a difference of 50 when compared to the first choice ($200 - 150$), so there is only an additional 50, from agents not working hard (fixed wages) to agents working hard. Or the second option, i.e. agents get 20 percent $\times 250 = 50$ when they work negligently. So, there is no difference in the level of agent wages between working hard to get high and low returns. On the other hand, when fixed wages are given, the negligent agent will get 150, without any effort so that the expected daily profit will be low, the remaining 450 will be the principal's rights ($600 - 150 = 450$). So, it becomes clear that when given a fixed wage, agents will tend to prefer to be negligent, because they get bigger returns than when they work hard.

The second option is when the agent's wages are determined based on the principal's profits. Therefore,

the principal must give a wage greater than 250 to stimulate the agent to be willing to work hard, say 255. When the agent is willing to work hard, they get 255 out of a possible 0.8 high income, so 205 (0.8×255). So, the remainder is income for the principal, which is 695. On the other hand, when they work negligently, they get 51 of the possible low principal income (600), which is 0.2×255 , the rest is income for the principal, which is $51 = 600 - 51$.

The principal has a difference in expected daily profit between agents who are willing to work hard and agents who tend to be negligent, i.e. $900 - 600 = 300$. When the negligent agent has turned into working hard, there is a difference between the first and second options, namely the principal pays a wage of 300 to the agent who is greater than 204. So, the principal will choose a plan to provide compensation in the form of increasing wages to 255. Expected daily profit is significantly higher when paying 255 compared to fixed wages of 150 per day. As a result, the principal chooses to pay wages based on his income so that the agent is willing to work hard.

The agency relationship figure (Goolsbee, 2013) explains the first stage is the nexus of contract for both. Principals can pay agents on a fixed basis or based on their income. This emphasizes that the contract guarantees the rights and obligations of both parties when information asymmetry is found. However, the adverse selection problem that occurs at IPHE is caused by information asymmetry from the principal to the agent. The second stage is a moral hazard problem, namely, when contract irregularities are found. This is caused by the incompatibility of the incentives with the actions that the agent must take. The principal should choose a contract structure that encourages the agent to choose a high level of effort. In fact, according to the agent, when dealing with parties other than the foundation (such as the research and service community), there is no moral hazard because there is a match between incentives and actions. In contrast, when learning performance is related to internal parties (foundation), moral hazard occurs because there is no balance between rewards and actions.

The second hypothesis is proven, whereby the religion value which mandates agents as stewardship is not proven. They act opportunistically in learning performance, and this behavior can be changed when there is a clear contract regarding reward and punishment, and that's where outcome-based contracts are needed. No deviation was found in the elements of research performance evaluation, community service performance evaluation because monitoring was carried out by outside parties (Ministry funding).

Agency relations problems appear to be worse at IPHE than at public universities owned by government. They exercise control over their resources, and the appointment of employees includes the position of their chancellor (Ngo & Meek, 2019). The implication is that foundation principals need to clarify contracts with agents to obtain an equilibrium point, such as the lemon problem model, to achieve organizational sustainability. The adverse selection problem stimulates contract ambiguity as a producer of agency conflict (McCaffrey, 2017; Suri & Adnan, 2016). As a result, only lemons works at IPHE and generates moral hazard when it comes to the foundation of IPHE. In other words, religion value has not been transformed into an organization culture, the principal takes adverse selection action because the agent's religion value does not shape the organizational culture. As a result, there is a deviation in the achievement of organizational sustainability.

Conclusion and Recommendation

Organizational sustainability can be achieved when the governance structure and outcome-based contracts reduce asymmetric information between principals and agents. The complexity of organizational systems, such as IPHE and being more independent from the government than public universities, make more excellent asymmetric information. Based on the study, we found several things. First, the adverse selection problem; principals cannot distinguish good or low quality because they assume that the agent has a religious value. It turns out that VMMT is not understood by both parties and can potentially produce agency conflicts between the two. Second, asymmetric information contracts are obtained in learning but not in research and service to the community. As an economic individual, not a human individual, the agent will act in the principals' interests. Asymmetric information is found, namely, when agents have agreed to a tri dharma performance contract with principals, but they do not get promotion/tenure or merit, especially in learning performance.

The surprising finding is that Islamic values have not yet been transformed into the organizational culture at IPHE. Islamic value that does not transform into corporate value makes it difficult for IPHE to achieve sustainability due to the inaccurate assumption that agents are religious beings, not human economic.

Principals assume that the agent understands the religious values contained in the VMMT, while it does not produce the information asymmetry. Because agents are human economics, when the dividends from learning performance are unclear, they have no incentive to organize them in a quality manner. In contrast, when grants fund research and community services, they are entrenched with principals. We clearly emphasize that human economics has different religious values from organizational culture.

The asymmetric information results in IPHE having difficulty achieving sustainability because public universities have no difference. When government intervention is lower than public universities and the absence of Islamic culture as branding, they have difficulty achieving sustainability. The limitation of our study is not being able to observe agents and principals, even though differences in the proportion of Muslims and non-Muslims in an area may determine IPHE culture. Baxamusa and Jalal (2014) state that organizational culture is determined by the value of religion embraced by the majority of the population in the region.

Conflict of Interest

The Authors declare that there is no conflict of interest.

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