

# Good University Income Generating Governance in Indonesia: Agency Theory Perspective

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## Abstract

The objective of this study aims to comprehend and portray the management opinions of the three Public Service Board (PSB) universities in Indonesia dealing with the good university income generating governance. Furthermore, this study applies epistemological subjectivism, interpretivism paradigm with multi-site design. The findings were analyzed using agency theory perspective. Therefore, the finding results show that the principles of good university income generating governance is law-abiding, academic oriented, accountable, professional, independent and transparent. The emergence of the principle of law-abiding indicate hierarchical relations agency that is purely between the government and the universities in income generation. The principle of academic orientation, accountability, independence and autonomy suggests that the goal synergy of both principal and the agent are the essence of agency relationship. Meanwhile, the professionalism demonstrated that the agent fully realizes which the principal requires certain tasks to be implemented by the agents because agents have the skills required. Yet, independence gained through wide autonomy both on academic as well as non-academic matters. The principle of transparency demonstrates the importance of the information factor in agency relationship. Agent transparency is necessary for the principal due to the difficulty in obtaining information dealing with the headway of the agent itself.

**Keywords:** Good University Governance, Income Generating, Agency Theory

## 1. Introduction

Good corporate governance has become requirement and indeed very vital needs to fulfill the demands of the people in a democracy both for organization private as well as government organizations. All entities that require management and stakeholders regarding the wider community need good corporate governance and yet, colleges are on the list (Indrajit & Djokopranoto, 2006:275).

It has been recognized that old universities in developed countries have come to realize and implement corporate governance in their respective universities. Canadian Association of University Teachers (CAUT) in 1993 published "Governance and Accountability: *The Report of the Independent Study Group on University Governance*" which is used as the reference for Canadian universities. In the meantime, in the UK, Committee of University Chairman (CUC) issued a statement on corporate governance models that need to be included in each university's annual report and Guide Member of Governing Bodies of the University and College across England, Wales, and Northern Ireland (Indrajit & Djokopranoto, 2006:275).

The pattern of Financial Management PSB (Public Service Board) is applied at the State University in Indonesia has provided flexibility in financial management and an incentive to increase their income. The measure of university performance from a financial perspective seems to be more important than the customer's perspective (Indrajit & Djokopranoto, 2006:165). The phenomena dealing with university's revenues is interesting to be observed due to the diversity of income sources between the public and private universities in developed countries and among those large universities in developed countries with major universities in Indonesia, where, diversity does not occur in the use and allocation of funds itself (Indrajit & Djokopranoto, 2006:185).

Agency theory is a theory that portrays the relationship between two parties in which one party is set as hired principal which duty is to manage others who are called as the agent. In this case, the duty of the agency is carrying out tasks on behalf of the principal (Ross, 1973; Moe, 1984). During the 1980s and 1990s, the role of agency theory has become more or less mainstream in higher education research. Researchers such as Ferris (1991), Lehtmaki (1993), Whynes (1993), Holttä (1995), Williams (1995; 1997), Massy (1996), and Geuna (1999) acknowledged the existence of the principal-agent setting, however, a well-established in-depth study about the intended relationship as an agency relationship has not been done yet. Furthermore, researchers such as McLendon (2003), Liefner (2003), Gornitzka et al (2004), Lane (2005) and Kivisto (2007) has applied agency theory in the context of higher education and university-government relations. All those researches have recognized and utilize of what so-called agency theory as an analytical framework or an approach that can be characterized as a lens to photograph what is visible and able to answer a question (Creswell, 2003:119).

A research that has been conducted by Kivisto (2005a; 2005b; 2007), shows that there is an increased effort to apply the agency theory in the context of today's higher education and has led toward the agency relationship. However, there has not seen any in-depth observation about the pattern of relationships, particularly the one that associated with the implementation of good governance at the college level. Therefore, this study tries to use the analytical framework or perspective of agency theory as an instrument to analyze the implementation of good corporate governance in the case of extracting revenue (income generating) conducted by the university.

*Campus 1* is one of the first-born universities in East Java established on October 18, 1954. *Campus 1* has a high awareness to the importance of governance seen in the vision, mission, goals and strategies set by this institute. Starting in 2008, *Campus 1* has been categorized as a government institute that implements general Public Service Board Financial Management Patterns (PSB-FMP). Being categorized as above, *Campus 1* possesses enough freedom and

flexibility in administration and financial matters as well as expanding its funding access so that it becomes an incentive in carrying out the digging income.

*Campus 2* is one of the foremost state universities that has a numerous students as roughly as 51 515 students (<http://www.ub.ac.id> retrieved on October 15, 2012). The main issues that become the center of the attentions of *Campus 2* in preparing itself towards an entrepreneurial university are autonomy, organizational restructuring, and improving national competitiveness. *Campus 2* began implementing its Public Service Board Financial Management Patterns (PSB-FMP) since December 17, 2008 by Decree of the Minister of Finance No. 361/KMK.05/2008. Having this status, *Campus 2* possesses enough flexibility in financial matters as well as its income. Thus, it can be an incentive for universities to be more intensive in extracting revenue.

*Campus 3* is a well-known university that has a massive passion as a Center of Islamic Civilization and Excellence as well as the greatest leading university in Indonesia (Suprayogo, 2009). In funding system, *Campus 3* has made changes to the Public Service Board Financial Management Patterns (PSB-FMP) that has been implemented since March 31, 2008 by Decree of the Minister of Finance No. 68/KMK.05/2008. Having this status, *Campus 3* possesses enough flexibility in financial matters as well as its income. Thus, it can be an incentive for universities to be more intensive in generating income.

Based on the context of the research that has been described above, the main focus of this study are:

1. The principles of good income generating governance for the three states universities PSB in Indonesia.
2. The implementation of the principles of good income generating governance in the three state universities PSB in Indonesia.

## 2. Method

This study uses a qualitative approach in order to assist the researchers in understanding what is being said and done by people (Myers, 2009:5), especially from the point of view of the subject with an emphasis on process (Creswell, 2007). This study attempts to comprehend the meaning of events and interactions of people in certain situations, so it can be used with a theoretical perspective that is tries to comprehend the phenomenological approach of the subject from the subject's point of view itself by making interpretations through the creation of a conceptual scheme in which discovered its facts and causes (Bogdan and Biklen, 1982). Furthermore, this study was designed with multi-site designs that is expected to bear such a wider general theory that has broad generalization and general in its application (Yin, 1984; Bogdan & Biklen, 1982). All of the third sites were taken due to its similarity in its characteristics, they are: 1) serve as a public or state university, 2) these universities have a number of faculties, and 3) implementing the financial management of what so-called Public Service board (PSB).

The key informants in collecting the data are such as rector or vice rector of administration and finance, the dean or associate dean of administration and finance, bureau officials or the administration and finance, as well as the income generating units staffs as shown in Table 1.

**Table 1 Details of Research Informant**

Informants	<i>Campus 1</i>	<i>Campus 2</i>	<i>Campus 3</i>
Rector or Vice Rector	2	2	2
Bureau officials /staffs	2	1	3
Dean/Vice Dean	1	1	3
Income generating units staffs	4	2	2
Total	9	6	10

Total Informants	25
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The research instrument in this study is the researchers themselves as a key instrument (Guba and Lincoln, 1981). Meanwhile, the data collection is done through three techniques, in-depth interviews, participant observation, and study documentation (Bogdan and Biklen, 1982; Yin, 1991, and Myers, 2009). In-depth interviews with informants were conducted as an unstructured with frequency as shown in Table 2.

**Table 2 Frequency of In-dept Interviews**

Informants	<i>Campus 1</i> (times)	<i>Campus 2</i> (times)	<i>Campus 3</i> (times)
Rector or Vice Rector	3	2	2
Bureau officials /staffs	2	5	3
Dean/Vice Dean	2	1	3
Income generating units staffs	5	2	3
Total	12	10	11
Total Frequency	33		

The participant observation was conducted for 1 (one) year, started from July 2011 to August 2012 with details length 4 months in *Campus 1*, and 3 (three) months in each *Campus 2* and *Campus 3*.

The documents to be learned are: University Master Development Plan (AMDP), University Strategic Plan, the Statute and the Organization and Work (SOW), Rector Policy, Annual Report, Financial Statements, Minister decisions related to the subject, the Rector Decision which related to the income generating systems, newspapers, magazines, and tabloids which publish the three state universities, statistical data related to the subject and others associated matters related to the university income generation.

Data were analyzed through a modified analytic induction techniques (Bogdan & Biklen, 1982:65), which establish the concept or proposition toward the development of a substantive theory based on empirical information obtained. Meanwhile, the data analysis framework is a framework developed by Miles & Huberman (1992) through the procedure of data reduction, data presentation and conclusion / verification.

### 3. Results

Multiple cross-site findings among the temporary findings in *Campus 1*, *Campus 2* and in *Campus 3* described as below.

#### 3.1 Principles of Good University Income Generating Governance

A good income generating governance of the university is that meets the principles of legal compliance, academic-oriented, accountable, transparent, independent, and professional. Income generating governance that law-abiding means that source of income, income generation process, the formation of a business unit up to the income management must be in accordance with the legislation of the law. Legal compliance in extracting revenues must be accompanied by an understanding of the rule of law. Obedience to the law in income generating is based on realization that State University is a part of the government bureaucracy that all of its actions must have a legal basis.

Furthermore, the academic oriented income generation means that income generation may be purely academic through the provision of education and teaching services. This academic-oriented income generation can be done through the development of academic-based business unit, in which provides science and technology-based products. Academic oriented

income generating can be done through the development of business units that are not based purely academic, but the results are used for academic activities. The principle of academic-oriented is a principle that income generating based on the realization of the main tasks and functions of universities that are teaching, research, and community service as mentioned in the *Tri Dharma* of the University.

Accountability in income generating means putting more responsibility on how the role and function of universities in improving the quality of human resources as compared to the financial and revenue management accountability. Nevertheless, sources of income, the process of generating income, and fund management should be accountable to the appropriate authorities, both internally and externally.

Transparency in income generating means that all forms of income that has implications toward the state must be reported. Disclosure of information income generating should be given to the appropriate authorities. The principle of transparency is based on realization that transparency in income generation plays a major role in increasing public trust and motivation, reducing the burden of moral accountable for its performance. Thus, transparency becomes a part of the process of accountability for performance to the state as the principal of the university.

Autonomy in income generating means that the university should have broad authority to conduct the process of generating income and fund management. With such broad authority, the university can optimize cooperation and development business unit that can reduce dependence on sources of income to the students and students' parents.

The good income generating governance has to be professional. It means that the development of commercial business units in order to generating incomes should be managed by the institution or professional personnel. In addition, the development of commercial business unit is the domain of the university, while the faculty focuses on the academic development. Professionalism in extracting revenues based on the view that the key to success in the modern organization is a professional management.

Good university income generating governance principles can be described in the context diagram in Figure 1 below.

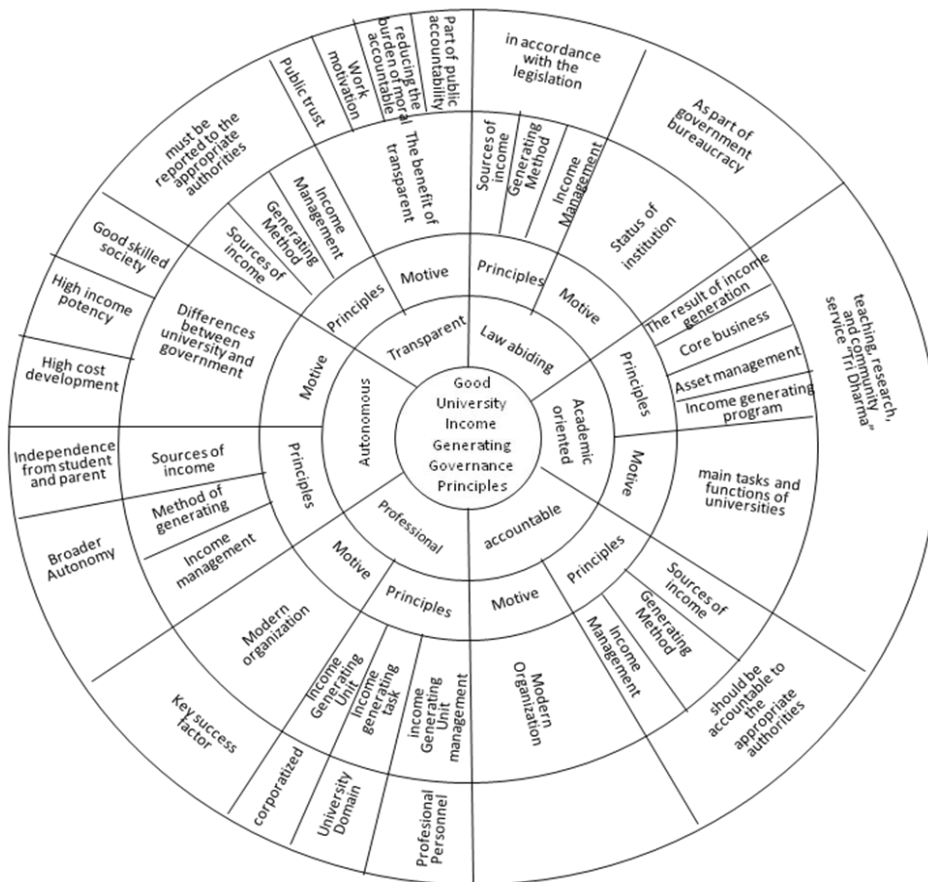


Figure 1: Context Diagram of Good University Income Generating Governance Principles

### 3.2 The Implementation of good income generating governance principles

Obedience toward the law is implemented in the form of income generating: legalization of income generating structure, internal control commitment, commitment to improvement of the system, mechanisms and procedures income generating adapted to the developments in the field of financial regulation. The implementation of the principle of academic orientation include: the establishment of an academic-based business unit of dams as a development laboratory disciplines. The implementation of the principles of accountability and transparency are integrated revenue administration through one gate system, revenue use by students through scholarships. The implementation of the principle of professionalism in generating income include: production of goods / services that the public market share, recruitment managers and business unit employees based on competence and derived from non civil servants. Furthermore, the implementation of the principle of independent university in the form of an increase in alternative sources of income through the development of commercial business units, grants and cooperation.

Problems that occur in implementation of legal compliance principle have not been optimal adherence to the law caused by several things such as: government regulations that have not synchronized, multiple interpretations, capricious, not implementative, incomplete, complicated, and lack of communication among the government auditors.

On the other hand, problems in implementing the principle on academic orientation is that the implementation of academic-based business units is not optimal yet due among others to the conflict of interest between academic interests with the business interests in the process of generating income. Thus, problems arise in the implementation of the principle of

accountability is still a distortion in the reporting of revenue, and inefficiency in the use of funds in the income generating units

The significant problem is the implementation of the principles of professional management units which has not been all-out. Therefore, this phenomenon is caused by the absence of a precise formula; professional employees only available for technical/operational field and there is no synchronization between bureaucracy and business systems itself.

Yet, the absence of self-contained institution indicated from the high dependence on revenues derived from students. The condition is caused by several factors such as: development of the business unit has not been not optimized, lack of the ideal model of asset management in order to increase income, and the limitations of the university's authorities in the utilization of fixed assets.

The significant problem in implementing the principle on transparency is that there is information limitation especially finance information just to limited party like a government auditors. The condition is caused by differences in meaning about the definition of transparency.

The cross-site latest finding dealing with the problems in implementing the principles of good income generating governance can be described in the following context diagram (Figure 2):

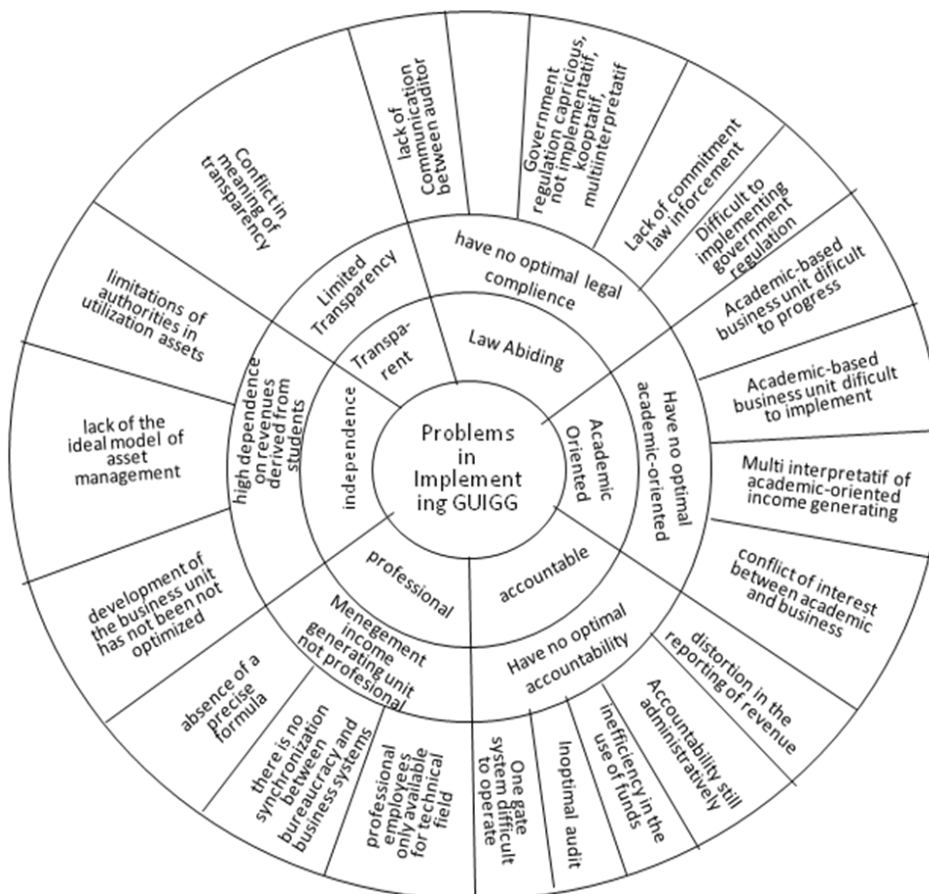


Figure 2. Context diagram of the problems in implementing the principles of good university income generating governance

#### 4. Discussion

##### 4.1 The Principles of Good University Income Generating Governance

From the perspective of agency theory, the emergence of the principle of law-abiding in universities income generation, showed that there has been a hierarchical agency relationship

that is purely between the government and the universities in generating income. In this case, universities perform more as a public agency which implementing government policies and hierarchical relationships are characterized as governance by laws and regulations. In this matter, it is the official duty of the universities to follow regulations and carry out the tasks delegated to them according to the given resource (Bleiklie, 1988:305; Gornitzka et al., 1998:35)

The emergence of academic orientation principles in the good governance of university income generations show that the generating income actually is not the main goal but only an amid goal, while digging the main purpose is to increase the income of university academic services through education, research and community service. Therefore, from the perspective of agency theory, the emergence of academic orientation principle suggests that the principal goal is the core of agency relations, and the goal conflict is the main assumption of the theory of agency. Most of the theoretical literature agencies adopt two crucial assumptions about agency relationships, one of which is the goal conflict (Moe, 1984:754; Eisenhardt, 1989:58; Barney & Hesterly, 1996:125; Waterman & Meier, 1998:177).

From the perspective of agency theory can be explained that the emergence of accountability principle in good university income generating governance suggests that awareness towards the university, as an agent of the principal objectives, must be accounted by the agent itself. It means that the apt between tasks assigned by the principal and agent performance accountability is the essence of the agency relationship (Moe, 1984; Eisenhardt, 1989; Barney & Hesterly, 1996; Waterman & Meier, 1998).

Principle of professionalism income generating indicates that the basic reason in establishing the agency relationship is reached when the principal requires certain tasks to be implemented, and require the services of an agent because the agent has the skills and needed abilities to perform the task, and the principals themselves may not have the skills and abilities or less effective in carrying out the duties of the agent (Petersen, 1993: 278).

From the perspective of agency theory, the emergence of the autonomy principle for universities in demonstrating the validity of the goal conflict assumption in the relationship between universities and government agencies (Moe, 1984:754; Eisenhardt, 1989:58; Barney & Hesterly, 1996:125; Waterman & Meier, 1998: 177). A goal conflict is a situation where the desire of the principal and agents differ on certain purpose. Therefore, they have different preference in carrying out the action (Milgrom & Robert, 1992: 185).

The principle of transparency in extracting income is known as the evidence that the information factor is the core of agency theory due to the disciplines of agency theory is derived from Economics, especially informational Economics (Eisenhardt, 1989:59), and agency theory was originally built to answer everyday questions about the incomplete information and risk sharing Moe (1984:756).

#### *4.2 The Implementation of Good Income Generating Governance for University*

The implementation policy is a dynamic process in the form of the interaction of many factors (Grizzle and Pettijohn, 2002). Edwards (1980) stated that there were four factors that play a role in the implementation of a public policy related to communications, resources, dispositions or attitudes as well as the bureaucratic structure.

Variable attitude (dispositions or attitudes) is a variable that is proper enough to be analyzed by using a theoretical framework in particular agency problems because these variables are closely linked to the behavior of agents. Meanwhile, the agency problem is an issue that deals with the possibility of opportunistic behavior of the agents that works from the welfare of the principal (Barney & Hesterly, 1996:125).

The problem dealing with the implementation of good income generating governance for University is caused by dispositions or attitudes factors. It occurs in all implementations of the



principles, starting from the principle of law-abiding, academic orientation, accountability, professionalism, and independence and transparent. Meanwhile, the problem in implementing the law-abiding attitude is the commitment of law enforcement of the university that has not been adequate. On the other hand, the matters associated with the implementation of the principle of academic orientation are: a) academic-oriented has multiple interpretations and easily justified; b) the attitude of placing more concern on income rather than the academic in the case of conflict between commercial and academic; c) the attitude of pragmatism in generating income; and d) the reluctance to develop academic-based business due to lack of courage to develop it. Attitude problems in the implementation of accountability principles are: a) the audits performed by both internal and external auditors have not been accomplished well; b) inefficiency in using funds in the income generating unit; and c) intolerance toward uncovered income in a small amount. Yet, problem in the implementation of the professional principles attitude occurs due to the academic resistance towards professionals as a result of differences in perspective on the practice of business units within the bureaucracy. Attitude problems in the implementation of the principle of independence are: a) low motivation and initiation of income generating unit managers in developing its unit; b) lack of support from unit leader which shelters income generating units; and c) high dependence on funds coming from students. Attitude problem in the implementation of the principle of transparency is a management restrictions on the access to information, especially concerning on finances.

Issues on the implementation of the principles of governance-related income generation attitude/ dispositions factor from the perspective of agency theory indicates that there is agency problem which is called as asymmetric information and goal conflict that occurred between the university which roles as agency and government as a principal. Information is the main resource of organizational life because the information is a source of power. To control the correct information, a person or an organization can systematically influence the organization's definition of the situation and create patterns of dependency. The way information is filtered, summarized and analyzed also formed the view and knowledge that works as input for the decision making process. All the power of organization, leadership, and decision-making requires information and communication, either explicitly or implicitly. Through ownership of the right information at the right time and through having access to key data, the power relations within organizations and between organizations can be affected (Hall, 1987:177-178; Morgan, 1997:179-181). From the perspective of agency theory, Asymmetric Information exists when agents have relevant information related to the type, task, or activity that is not owned by the principal. It is widely accepted by experts that the production output of higher education, including the generation of income and fund management, surrounded by information asymmetry (Ferris, 1991:5; Holta, 1995:179; Gornitzka et al., 2004:90). Information asymmetry may be caused by the characteristics of the job itself, the complexity of the organization, as well as the complexity of the production technology (Kivisto, 2007).

Furthermore, the next indicated agency problems are goal conflict between the university as an agent and the government as principal. Individual and organizational goals are something controversial and complex in organizational studies. The importance of goals depends on the alleged effects on individual and group behavior. According to Scott (2003:292), "the concept of organizational goals is something that most slippery and dangerous of all the organizations that is used by the analyst." Goal has been conceived as a "projection of organization willingness to be completed, produced, or obtained" (Bolman & Deal, 1984:34) and as "outcomes to be achieved by members of the organization" (Scott, 2003:22). The objectives of the organization have been defined as "a state of affairs that the organization sought to be achieved" (Etzioni, 1961:71) or as "future intended domain" for the organization "(Thomson, 2003:127). However, the definition of higher education goals is something very controversial. Since branching objectives are the basic features of the academic organizations (Baldrige,

1983:39; McKelvie, 1986:151; Patterson, 2001:162). Meanwhile, the complexity of university goals are due to, first, because the college has a lot of missions, and secondly, because no one in the organization has the absolute authority (Allen, 1988:25-26). Diverse constituencies and interest groups, such as faculty, administration, students, donors, alumni and private research sponsors, hold different, sometimes opposing views on the objectives and priorities of universities, both within the group and between groups (Patterson, 2001:162). But despite sharing many purposes, does not necessarily mean that everyone agreed objectives which should be achieved or how to achieve it (Birnbaum, 1988:62).

## 5. Conclusion

Good income generating governance is that which meets the principles of law-abiding, academic-oriented, accountable, transparent, professional, and independent. However, the implementation of good governance principles in generating income still leaves some issues such as non optimal legal compliance by the university as the implementation of the principle of legal compliance issues; the disadvantage in developing a business unit based on academic area as a concerns in implementing the principle of academic orientation, the implementation of one gate system on financial management and low income as a form of problem in implementing the principles of accountability and transparency. Last but not least, the high dependence on the source of income from students and parents of students becomes significant issue on the implementation of the independence principle.

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