Stepping Ahead from Agency and Stewardship Theory: an Islamic Perspective

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ABSTRACT

This paper seeks to review the relevance of Agency Theory and Stewardship Theory in uncovering the reality of public sector organizations, where at the same time Islam as a source of value has a unique perspective in providing views and other possibilities on organizational behavior in the public sector. This paper uses a qualitative design with literature-review approach. Through an Islamic perspective, organizations are not seen only as a fulfillment of the economic desires of their actors as in Agency Theory, nor are they seen as a container of personal achievement as described in Stewardship Theory. Islam prioritizes the value of divinity and humanity as its foundation. This then has an impact on the attitude of the actors who are oriented towards providing the greatest benefit to fellow human beings so that in the end it will have positive implications in the context of society in general.

1. Introduction

Organizational theory seeks to reveal the relationships and constellations between the parties to the organization. It is undeniable that agency theory has become a lot of references in explaining the relationships that occur in organizations in the context of principal-agents. Both principals and agents are assumed to be rational economic individuals who are and are motivated solely by self-interest to maximize benefits. Agency theory is basically a conflictual theory, since it focuses on the regulation of conflicting interests between two self-interested actors [1]. This contributes to the high costs required to verify what the agent is doing [2]. Furthermore, conflicts that are then called agency problems can have implications for forms of moral hazard in practice. In the literature of positive accounting theory for example, managers are hypothesized to manipulate profits when their compensation is bound by accounting figures [3].

In its development Davis, Schoorman and Donaldson put forward a stewardship theory that departs from the finding that in organizations both principals and agents it turns out that in their behavior they can act not solely motivated by economic factors [4]. Stewardship theory emphasizes a premise based on psychological behavior where human needs lie not only in economic factors, but there are other needs that are higher in nature than that.

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Maslow argues that human needs can be classified hierarchically according to the type of needs [5]. The most basic needs concern psychological needs such as water, food, shelter and rest. Furthermore, there is a need for safety, which is related to safety. After that, the next need is a representing sense of belonging and love, which is reflected in social relationships. Then the next need is the need for respect. The most peak need is self-actualization which is the need to optimize the potential to achieve true meaning for the person [5].

Relying on this aspect of human needs Davis, Schoorman and Donaldson offer a stewardship theory that differs from agency theory in terms of its main premise where individual actions are driven by the need for self-actualization so as not to prioritize interests of an economic nature. This is in contrast to agency theory which assumes that individuals act based on their basic needs so that they become economic men..

Public sector entities, especially in this case the government, aim to provide services to the community. Based on its public service-oriented characteristics, behavior in available public sector organizations is explained through service theory. The actor in this case acts based on being a servant who can always be invited to work together in the organization, has a collective or shared behavior with his own individual high utility, and always offers to serve. In the theory of stewardship, if there is a difference between self-serving and pro-organizational behavior, the Steward will choose or choose to serve cooperatively. Therefore, the interests between the steward and the principal are not the same, the steward will still uphold the value of togetherness. Because the servant is guided that there is a greater utility in cooperative behavior, and this behavior is considered acceptable rational behavior.

In reality, harmonizing the basic assumptions of stewards cannot be done immediately because of the different levels of human needs in practice in principal-agent relationships. Psychologically complex relationships between parties – especially on a large organizational scale – become a challenge in the implementation of Stewardship Theory. This was expressed by Davis, Schoorman and Donaldson themselves as follows:

“The choice between activity and stewardship relationships is similar to the decision posed by a prisoner's dilemma. First, it is a decision made by both parties to the relationship. The psychological characteristics of each party predisposes each individual to make a particular choice. Second, the situational characteristics have an influence on the choice. The management philosophy may have a significant impact on the choice by both parties. The cultural background (collectivism and power distance) of each party will also affect the choice. Finally, the expectation that each party has of the other will influence the choice between agency and stewardship. A longer history of these parties dealing with each other will provide more data to guide these expectations.”[4]

In addition, empirically it can be seen that there are still very many cases of moral hazard that indicate deviations from the assumptions of stewardship theory -associated with public sector organizations- such as corrupt behavior and money politics [6]–[8]. Trust-based management, which is mandated by Stewardship Theory, is also difficult to find practice in a significant way in organizations [9]. In addition, inconsistencies in agent-steward behavior in government entities were also found.[10]. Therefore, a stronger and universal idea is needed to ensure the behavior of actors in government organizations can consistently serve the public in accordance with its main objectives.

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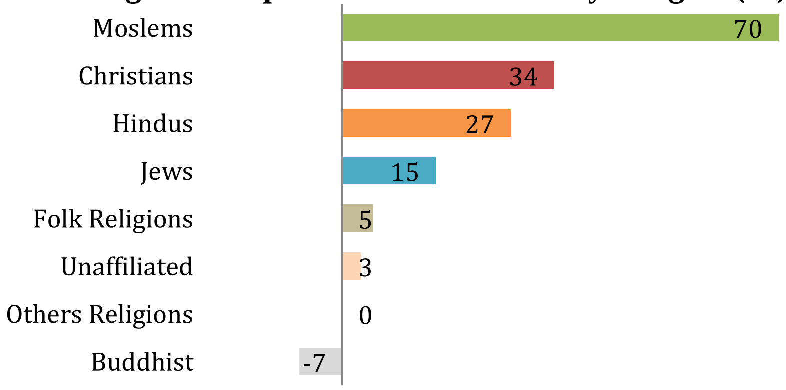
Religion as an ideological narrative has great power in encouraging human behavior [11]. As an individual in an organization, human beings both in their role as agents and stewards are bound by the cultural and religious touches that exist in their environment so that in fact the aspect of religiosity becomes inseparable in every individual behavior. Therefore, religious values should be an epistemological source of the study of organizations in the government sector.

Currently, Islam is the religion that has the highest population growth rate in the world and is projected to continue to grow rapidly at least until 2060.While the world's population is projected to grow 32% in the coming decades, the number of Moslems is expected to increase by 70% – from 1.8 billion in 2015 to nearly 3 billion in 2060. In 2015, Moslems made up 24.1% of the global population. Forty-five years later, they are expected to make up more than three-in-ten of the world's people (31.1%). [12].

Figure 1. Population Growth Rate by Religion (%)



The growth of the Islamic population will then have an impact on Islamic values that live and take place in the midst of society. Therefore, it is inevitable that dialectics and the interaction of Islamic values will occur in the public sphere including in public sector organizations. Islam has the premise of being a universal religion (rahmatan lil-alamin) so that in an effort to construct organizational theory, the values of Islamic universality can be used as a reference material. This paper seeks to review the relevance of Agency Theory and Stewardship Theory in uncovering the reality of public sector organizations, where at the same time Islam as a source of value has a unique perspective in providing views and other possibilities on organizational behavior in the public sector.

2. Method

This paper uses a qualitative design with literature-review approach. In the other hand, this study view the interrelationships between humans and their environment including in public sector organizations. This means, that cultural aspects and religiosity of Islam in this case, cannot be separated as a unified component of the analysis. The review is based on archival studies of the literature relevant to this study especially Davis, Schoorman and Donaldson: Toward A Stewardship Theory Of Management [4], and also religious texts in this case the Quran and Sunnah. In this study, the relevant values of the Quran and Sunnah were later adopted and conceptualized in an effort to provide possible new ideas in the study of organizations as an alternative to Agency Theory and Stewardship Theory.

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3. Results and Discussion

3.1. Islam as a Value System

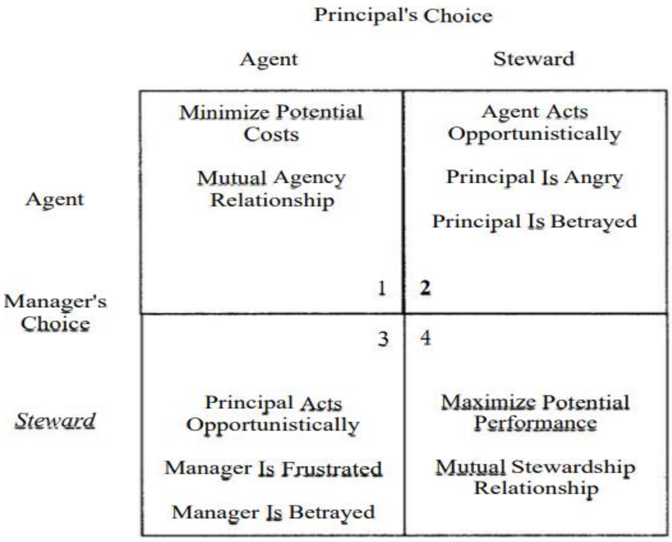
Islam comes from the word aslama, yuslimu which means surrender, submission and peace. In a linguistic sense, Islam contains a common meaning not just the name of a religion. Submission, obedience and obedience are the meanings of Islam. This means that everything that is submissive and obedient to the will of Allah is Islam [15]. Islam is addressed to all human beings regardless of ethnicity, race, and nation as well as all its dynamics and dialectics. Not only regulates the relationship with God, but Islam regulates the relationship between humans and nature as a whole. Islam is the basis of various human problems with the main reference being the main source, namely the Al-Quran. Islamic teachings cover all aspects of human needs, both worldly and physical and spiritual needs; individual and social; rational or emotional; entirely into discourse in Islam. Thus, in its position, Islam is knowledge that can be a guide for users of the information. In Islamic teachings, knowledge which is the domain of reason is a sufficient position. Various social, political, cultural, economic and other aspects of human life can be solved through comprehensive Islamic values. This knowledge of reason is also what can distinguish the special position of humans compared to other creatures.

Islam should be used as the basis for shaping one's mindset and action pattern so as to give birth to a complete and integrated Muslim personal form [15]. In fact, Moslems are not only interpreted as something static, namely religious unity, but also dynamic. in a sense, making Islam a way of life, a way of achieving goals, and a purpose in life. Islam as an integral and comprehensive system of life has given rules to all aspects of human life both aspects including in behaving. The Islamic sharia system covers all aspects of human life to maintain order, balance and sustainability of human life so as to achieve the happiness of human life in the world until the hereafter. The perfection of Islam as an ideology and value system becomes a human demand in the midst of the currents of globalization and modernity.

3.2. Islamic Value and Post-Stewardship Theory

The limitations of stewardship theory in assuming that man is a self-actualization man cause the failure of this theory in translating the various realities of cases of deviance and fraud in public sector organizations. In many cases, actors found in government entities are difficult to encourage to behave as stewards, instead of them behaving as agents. There is no fundamentally binding motive for an actor in government to act according to the criteria of a steward.

Figure 2. Principal-Manager Choice Model



As described by Davis, Schoorman and Donaldson, the ideal condition that allows Stewardship Theory to apply is when all actors position themselves as stewards, where there is really no strong impetus for one party to prefer the position of steward over agent. This can be interpreted as actually the position of agent and steward is an equal choice and can be used at any time in turn according to the internal motives of the actor himself. In other words, the opportunity for the creation of ideal conditions is difficult to achieve because the free choice for the parties in the organization to act as agents will close the possibility of a complete situation in stewardship theory.

For this reason, it is necessary to have a fundamental "assumption" that applies to each human being, which provides a strong internal impulse for the individual to behave in accordance with what is to be achieved ideally. Religion has a function as a narrative that is able to provide an encouraging effect for a person to behave according to the guidance of his teachings whether the perpetrators are aware of it or not. Human behavior is largely determined by his perspective on the surrounding reality. The perspective is built by the values, virtues, principles of life that a person believes in. Perspective is formed through the learning process that a person goes through throughout his life. Various social institutions -including religion- are very helpful in directing the learning process and the formation of this perspective [16]. Walsh and Middleton (1984) state: "The perspective provides clues that guide his followers in the world." This then distinguishes it from Agency Theory and Stewardship Theory where in both theories behavior is not deeply rooted from the principle of beliefs possessed by actors, so that behavior is easy to change at any time according to changes in conditions that occur. Using Weber's term in Social Action Theory [17] actions as agents and stewardship can be categorized as rational actions, while religious values encourage behavior more fundamentally even beyond the limits of rationalism.

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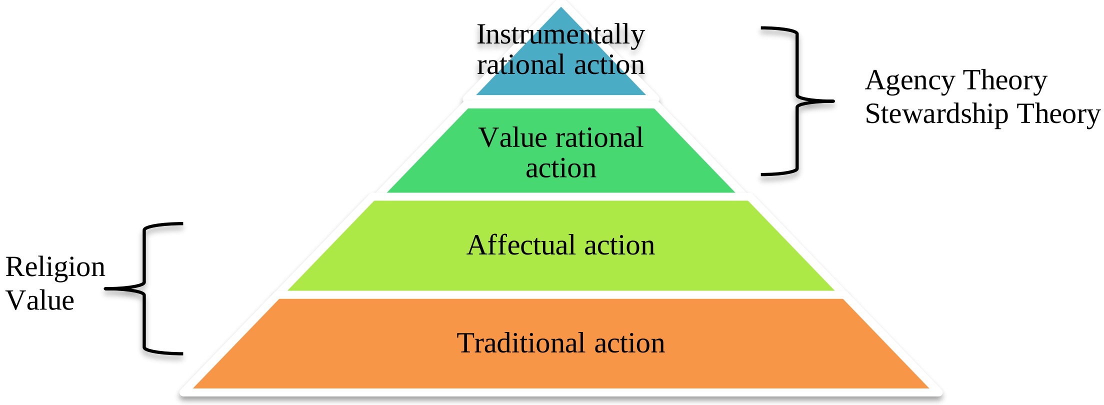
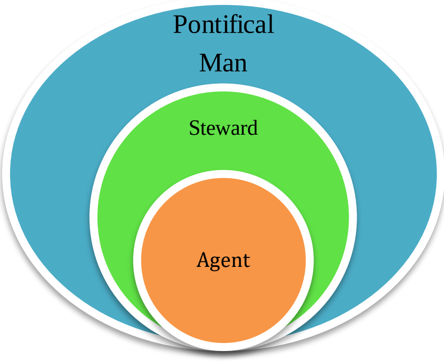
Figure 3. Religion Value in Action Weber's Social Action Theory



Islam offers the essence of man's role not as an economic man or a self-actualization man, but as a "pontifical man" or "kamil person" who is a servant of God. This status is inherent to every individual on earth regardless of his personal identity. This is stated through the verse: "And I did not create jinns and men but to serve Me" (Qur'an 51:56). Thus, this attribute becomes relevant for every party in the organization. The following figure shows an illustration of the pontifical man spectrum that encompasses the role of humans both as agents and as stewards.

Figure 4. Attributes of Pontifical Man Identity



Status as a pontifical man is the main status that cannot be released from every human being. Therefore, in various roles and life, including in organizations, it is proper for humans to prioritize human characters over other characters, including as agents and as servants. Based on the status of humans as servants of God, the consequence will be to change the approach to the relationship between individuals (in this case agents/servants in the organization). If it is based on his status as a servant, then the behavior carried out will be oriented towards providing as much benefit as possible to others. In accordance with the words of the Prophet SAW: "The best of humans are those who are most beneficial to others" In contrast to the assumptions of stewardship theory where stewards have a motive to get benefits, even though the benefits are not economical. Then whether by giving benefits to others at the same time will give harm to the party who gave it? It turns out, it will add blessings to the giver, This is confirmed through the verse: Say (Muhammad), "I do not ask for help from anything that is not balanced with my call except love in the family." And whoever benefits us will benefit us. Indeed, Allah is Most Forgiving, Most Gracious. (Qur'an 62:23).

Therefore, it should be done to reconstruct stewardship theory based on "assumptions" that are more relevant and fundamental for each individual. Using the matrix developed by Davis, Schoorman and Donaldson (1997), this study attempts to carry out a reconstruction with Islamic values that can be described as follows:

Table 1. Core Issue on Theory

Aspect	Agency Theory	Stewardship Theory	Islamic-Stewardship Theory
Model of Man Behavior	Economic man Self-serving	Self-actualization man Collective serving	Pontifical man God and humanity serving
Psychological Mechanism			
Motivation	Economic needs	Higher order needs (growth, achievement)	Servant needs
Social Comparison	Other managers	Principal	Human
Identification	Low value commitment	High value commitment	Top value commitment
Power	Institutional	Personal	Transcendental
Situational Mechanism			
Management Philosophy	Control oriented	Involvement oriented	Love oriented
Risk Orientation	Control mechanism	Trust	Faith
Time Frame	Short term	Long term	Beyond space-time frame
Objective	Cost control	Performance Enhancement	Give merit
Cultural Differences	High power distance	Low power distance	No distance

In the construction of Islamic-Stewardship Theory, it can be seen that there are fundamental differences in various aspects. In the aspect of the model of man behavior, Islamic-Stewardship Theory is positioned as a pontifical man who is oriented to his dedication to God and humanity. The psychological mechanism aspect that is built refers to human needs as God's servants, so that they are fully committed to carrying out God's will instead of pursuing personal interests, both economic interests and non-material personal interests such as personal achievement and self-development. In addition, individuals in Islamic-Stewardship Theory are controlled by transcendental powers rooted in their personal beliefs. In the aspect of the situational mechanism that is built, management is built with a love orientation which is then reflected as a form of faith in its orientation. As for the time frame, the behavior of the actor exceeds the space-time frame, considering that there is always a consideration of the hereafter in every action. Meanwhile, the goal for actors in Islamic-Stewardship Theory is to provide benefits, while in terms of cultural difference there is no distance at all between parties considering the equal position of fellow servants of God.

Through this Islamic values-based construction, it is hoped that the behavior of actors can achieve organizational goals to provide optimal public services. This is in line with Islamic values that teach humans to always spread behaviors that provide benefits to others. Meanwhile, in practice the power of religious narratives is expected to be able to encourage the behavior of actors to consistently implement Islamic values in their behavior in organizations.

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4. Conclusion

Islam has universal values that can be applied to various areas of life including in the behavior of individuals in an organization. The study of organizations so far has been dominated by Agency Theory-based constructions that assume humans are merely economic men. This anxiety then gave birth to stewardship theory which tried to transform basic human assumptions oriented towards self-actualization man. However, the case of moral hazard that still often occurs in the government sector raises the question of whether stewardship theory is able to explain the reality of the organization factually.

Through an Islamic perspective, organizations are not seen only as a fulfillment of the economic desires of their actors as in Agency Theory, nor are they seen as a container of personal achievement as described in Stewardship Theory. Islam prioritizes the value of divinity and humanity as its foundation. This then has an impact on the attitude of the actors who are oriented towards providing the greatest benefit to fellow human beings so that in the end it will have positive implications in the context of society in general.

The construction of the Islamic-Stewadship Theory certainly needs to be further developed so that it can then be implemented in the organization. Although it carries universal values, the challenges of primordialism and cultural factors are also something that cannot be ruled out if we are to seriously work on the Islamic-Stewadship Theory as a possibility in the subsequent study of public sector organizations. But for the sake of opportunity and optimism should be proclaimed given the prospect of Islam which continues to grow rapidly in population.

"If you act rightly, it is for your own good, but if you do wrong, it is to your own loss."
(Qur'an 17:7).

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