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**HIGHER EDUCATION AND INSTITUTIONAL-AUTONOMY  
POLICY IN THAILAND:  
THE PERSPECTIVE OF AGENCY THEORY**

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# ABSTRACT

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Key words: government-university relationship, agency theory, opportunism, information asymmetries, control, cultural embeddedness, favoritism, institutional-autonomy policy

The purpose of this thesis is to examine higher education and institutional-autonomy policy in Thailand through three perspectives of agency theory. These three perspectives are comprised of economics agency theory, political science agency theory and socio-cultural agency theory.

The application of agency theory in this study is one of the fruitful theoretical frameworks for those who have an interest in governance arrangements in higher education. The key contributions of the theory are the revelation of underlying motivation, behavior and response of universities towards governmental policy and intervention. This study investigates relationships between public universities in Thailand, which are quite heavily subsidized by the government in terms of funding, and the government from the perspective of agency theory.

Higher education in Thailand is an interesting case due to the country's non-colonial experience. It has a great deal of independence in choosing educational models from the West, and applies them within Thai context. On the other hand, the cultural embeddedness of favoritism (social-cultural agency theory) has a significant impact on the governance arrangements of funding (economic agency theory) and monitoring (political science agency theory).

The scope of the analytical framework aims to grasp the current style of governance (behavior-based governance) and the decentralization initiatives from autonomous-university policy (performance-based governance). Moreover, types of monitoring and information systems (police-patrol and fire-alarm governance), and favoritism (social agency relationship) are also included in the framework of investigation.

# CONTENTS

<b>ABSTRACT</b> .....	<b>II</b>
<b>CONTENTS</b> .....	<b>III</b>
<b>LIST OF FIGURES AND TABLES</b> .....	<b>VI</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>VII</b>
<b>1 INTRODUCTION</b> .....	<b>1</b>
<b>1.1 Background of the study</b> .....	<b>1</b>
<b>1.2 Research question and analytical framework</b> .....	<b>3</b>
<b>1.3 Methodology</b> .....	<b>5</b>
<b>2 AGENCY THEORY AND GOVERNMENT-UNIVERSITY RELATIONSHIPS FROM THE PERSPECTIVE OF AGENCY THEORY</b> .....	<b>7</b>
<b>2.1 Agency theory</b> .....	<b>7</b>
<b>2.2 Government-university relationships from the perspective of agency theory</b> .....	<b>11</b>
2.2.1 Principal(s) .....	11
2.2.2 Agent(s).....	13
2.2.3 Contractual relationships: mode of control and motivation .....	14
<b>3 DESIGN OF CONTRACTUAL RELATIONSHIPS: UNIVERSITY GOVERNANCE FROM THREE PERSPECTIVES OF AGENCY THEORY</b> .....	<b>19</b>
<b>3.1 University governance from the perspective of economics agency theory: contractual design via economic arrangements</b> .....	<b>19</b>
3.1.1 Behavior-based governance: direct and centralized resource allocation from the government.....	20
3.1.2 Performance-based governance: indirect and less-centralized resource allocation from the government.....	21

<b>3.2 University governance from the perspective of political science agency theory: contractual design with checks and balances among political institutions and interest groups.....</b>	<b>22</b>
3.2.1 Police-patrol governance.....	23
3.2.2 Fire-alarm governance .....	24
<b>3.3 University governance from the perspective of socio-cultural agency theory: decoding cultural value orientations and structural opportunism.....</b>	<b>26</b>
3.3.1 Decoding cultural value orientation.....	29
3.3.2 Building up feeling of trust between the principal and the agent.....	30
3.3.3 Designing contractual relationships fitting the level of cultural embeddedness of the agent.....	33
<b>4 THE HIGHER EDUCATION SYSTEM IN THAILAND: SOME CONTEXT-SETTING FACTORS .....</b>	<b>34</b>
<b>4.1 A brief history of Thai higher education .....</b>	<b>34</b>
<b>4.2 Multi functions of universities within a pluralist society in Thailand.....</b>	<b>36</b>
<b>4.3 Current administration of higher education in Thailand .....</b>	<b>42</b>
<b>4.4 Types of education standards for higher education .....</b>	<b>43</b>
<b>4.5 Institutional-autonomy policy in Thai higher education.....</b>	<b>45</b>
4.5.1 To increase flexibility and innovation of the university .....	47
4.5.2 The ongoing trend of deteriorating quality in Thai higher education.....	48
4.5.3 Limitation of national resources for higher education .....	49
<b>5 EMPIRICAL INSIGHTS: APPLICATIONS OF AGENCY THEORY IN HIGHER EDUCATION SYSTEM AND INSTITUTIONAL-AUTONOMY POLICY IN THAILAND .....</b>	<b>53</b>
<b>5.1 Principal (s).....</b>	<b>53</b>
<b>5.2 Agent (s) .....</b>	<b>53</b>
<b>5.3 Contractual relationships: mode of control and motivation .....</b>	<b>54</b>

5.3.1 Goals or given tasks .....	54
5.3.2 Opportunism costs .....	55
5.3.3 Information, monitoring and incentive systems .....	58
<b>5.4 Empirical analysis: government-university relationships, institutional-autonomy policy and university governance from three perspectives of agency theory .....</b>	<b>59</b>
5.4.1 The perspective of socio-cultural agency theory: decoding cultural value orientations and structural opportunism .....	60
5.4.2 The perspective of political science agency theory: contractual design with checks and balances among political institutions and interest groups .....	63
5.4.3 The perspective of economics agency theory: contractual design via economic arrangements .....	67
<b>6 CONCLUSIONS.....</b>	<b>73</b>
<b>6.1 Agency theory, institutional-autonomy policy and Thai higher education .....</b>	<b>73</b>
<b>6.2 Limitations of the study and implications for further research.....</b>	<b>75</b>
<b>REFERENCES .....</b>	<b>77</b>

## **LIST OF FIGURES AND TABLES**

Figure 1 Diagram of the theoretical insights.....	8
Table 1 Number of higher education institutions in Thailand .....	37
Table 2 Enrollments at Ramkhamhaeng University between 1971 and 1980.....	39
Table 3 Government and public expenditures on education.....	49
Table 4 Educational budget expenditures by function in percentage form of educational budget expenditures.....	50
Table 5 The comparison between number of students, higher education budget and budget per student in higher education system.....	51
Table 6 Proportion of students in formal system of public to private institutions in higher education between 2001 and 2005.....	52
Table 7 2007 Corruption Perceptions Index .....	57

## LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CHE	Commission on Higher Education
EDU	Education Loan Fund
EQA	External Quality Assurance
EU	European Union
HEEM	European Master Programme in Higher Education
ICL	Income-Contingent Loan
IQA	Internal Quality Assurance
KMUTT	King Mongkut's University of Technology Thonburi
MOE	Ministry of Education
MUA	Ministry of University Affairs
NCCC	National Counter Corruption Commission
NPM	New Public Management
OEC	Office of the Education Council
OPM	Office of the Prime Minister
ONESQA	Office of the National Education Standards and Quality Assessment
UC	University Council

# 1 INTRODUCTION

## 1.1 Background of the study

*Yes, you may well doubt, you may well be uncertain...Do not accept anything because it is the authoritative tradition, because it is often said, because of rumor or hearsay, because it is found in the scriptures, because it is based on speculative metaphysical theories, because it is a defense of an existing viewpoint, because it is a rationalization, because it agrees with a theory of which one is already convinced, because of the reputation of an individual, or because a teacher said it is thus and thus...But experience it for yourself.*

The Lord Buddha, Kalama Sutta

In the contemporary world of globalization, human capital and knowledge-based economy have become crucial determinants for a country's success and prosperity. Higher education institutions have been utilized as one of the major sources for producing highly-skilled labor force. The attempt of governments to create high quality citizens has mainly been centralized within academic enterprise of higher education institutions, particularly universities. In addition to the role of generating human capital, the role of the higher education institutions is not only limited to economic needs but is also a state apparatus to achieve many governmental goals from the perspective of socio-cultural rationale.

Governments in many countries are one of the key players that govern the world of academia. They play two crucial roles in influencing universities' behavior. The first role is that the government owns 'power of purse', which means universities have to rely mainly on governmental resource allocation. Second, the government is the player who creates the rules of the game through regulations and law.

On the other hand, the university possesses two sources of power that defend their status quo and enhance bargaining power against the invasion of government intervention. First, the power of knowledge specialties and disparate specialties (Clark, 1983, pp. 21-36), and the ongoing conventional belief of academic freedom gluing different interest groups within

academic community together are the main sources of the university's self-defending strategy. Second, the unique characteristic of the loosely coupled structure of academic enterprise makes it difficult for the government to intervene directly and explicitly in the university's affairs. The loosely coupled structure of higher education represents how each sub-unit within the academic community can retain some of its own identity and separateness while these disparate sub-units are glued to the academic organization with the belief of academic freedom (cf. Weick, 2000, pp. 127-128).

To govern the university is not an easy task for the government. The university possesses a considerable power of bargaining. The government has to seek actively a governance model that can manipulate the university to produce expected outputs in terms of economic and socio-cultural needs. The potential and optimal level of government intervention and governance arrangements in higher education systems has been one of the classic examples in the contemporary debate of the higher education sphere. The wise, effective and efficient interventions of the government indicate the importance of governance arrangements in higher education. What kind of strategies or models utilized in governing higher education will enhance university productivity and performance is a challenging question for those involved in this field.

A number of steering and state models have been developed to analyze changes in relationships between governments and higher education institutions. The traditional collegial-decision making within universities has gradually been replaced by some form of externally oriented management structure (Maassen, 2003, p. 33). Several state or steering models have been applied in higher education, for example, from a central planning model, and a self regulation model<sup>1</sup> by van Vught (1989) into state control and state supervision models<sup>2</sup> (Neave & van Vught 1991; Maassen & van Vught 1994). Another conceptualized framework of the four so-called state models<sup>3</sup> introduced by Olsen (1988) has also been referred to in the field of higher education research.

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<sup>1</sup> The central planning model is "characterized by strong confidence in the capabilities of governmental actors and agencies to acquire comprehensive and true knowledge and to make the best decisions" (Gornitzka, 1999, p. 23). The self regulation model pays attention to the role of the government who predominantly watches the rules of the game played by relative autonomous players, with the emphasis on monitoring and feedback (p. 23).

<sup>2</sup> The implicit assumption development from state control to state supervision was based on the notion that supervising role of the state would lead to a better performance of higher education than a controlling role (Maassen, 2003, p. 37).

<sup>3</sup> The four state models introduced by Olsen are comprised of the sovereign, rational-bounded state model; the institutional state; the corporate-pluralist state; and the supermarket state. A short summary of these four models can be found in the work of Gornitzka (1999, p. 24-27).

In addition to the contributions of van Vught, Olsen, Neave and Maassen, the analysis of the shifts in system-level governance structure by Peters (2001) helps to describe the reform of governance arrangements in higher education systems. In his work, Peters discussed a distinction between the first wave of reforms using markets forces in public governance to the second round of reforms emphasizing the measuring of performance and improving the accountability of public sector institutions.

Public management reform or New Public Management (NPM) (New managerialism) has also been one of the alternative theoretical frameworks widely embraced by many scholars and policy makers in the field of higher education. The key concept of public management reform consists of “deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better” (Pollitt & Bouckaert, 2004, p. 8). New Public Management in higher education can be referred to as the governing of publicly funded higher education institutions based on the contextualized ideology of ‘quasi-market-based governance’ that would simultaneously break the power of professional ‘producer cartels’ and the ingrained organizational inertia characteristic of corporate bureaucracy, so that it can improve efficiency, effectiveness and excellence (Reed, 2002, pp. 165-166; Deem, 2001, pp. 10-11).

The differentiation of governance models in higher education depends upon the characteristic of the conceptual and theoretical framework utilized in explaining a model. Indeed, the significant importance of the role of the government-university relationships is an undeniable determinant that influences outputs of educational policy of the government. The government-university relationship, in other words, plays a crucial role in determining the university productivity from collective operations between these two stakeholders. *Having drawn much attention from the angle that the government has a highly influential power in the university’s behavior, the emphasis of the analytical framework in this study is directed to the governance arrangements in higher education from the perspective of agency theory, highlighting government-university relationships.*

## **1.2 Research question and analytical framework**

The objective of this study is to underline the importance of governance arrangements in higher education, particularly at the level of government-university relationships. The research question

is “*How can agency theory be applied as a theoretical framework for examining the government-university relationships of higher education and institutional-autonomy policy in Thailand?*”

Governance arrangements are a high-profile topic in the study of higher education. Researchers adopt and apply many theories from various disciplines in order to analyze the interconnected relationships between governments and the universities. One of those theories seemingly neglected by the mainstream higher education researchers was agency theory (Lane & Kivistö, 2008, p. 155). Some scholars, however, have incorporated agency theory into the study of higher education during the last few years. Scholars such as Lowry (2001), Lane (2003), Liefner (2003), McLendon (2003), Nicholson-Crotty & Meier (2003), Payne (2003), Gornitzka, Stensaker, Smeby & de Boer (2004), Kivistö (2005, 2007) and Lane & Kivistö (2008) have introduced and applied various concepts of agency theory to the field of higher education governance and policy studies.

The application of agency theory in higher education contributes to one of the feasible approaches to the analysis of government-university relationships. Agency theory in higher education, in general, draws attention to the theoretical and practical issues related to *control* (Kivistö, 2007, p. 41) and *types of relationships between the government and the university*. This study indeed investigates *how agency relationships from three perspectives of agency theory (economics, political science and socio-cultural agency theory) can be utilized to illustrate the governmental control over the university’s behavior*.

In addition to the perception on how to control the university, the significant importance of agency theory is in demonstrating what motivates organizational thinking and behavior of the university such as incentives, self-interests, goal conflicts and information asymmetries. With such assumptions, agency theory highlights the issues that are relevant to factors that influence university’s behavior, types of agency relationships between the government and the university (economics, political science and socio-cultural agency relationships), and government intervention. Indeed, agency theory offers a theoretical framework that helps to open the *hierarchical black boxes of the university* (Hölttä & Karjalainen, 1997, p. 231) as a result of the government intervention, and assists in examining the internal process between the university’s inputs and outputs (Kivistö, 2007, p.183).

The role of the government in Thai higher education is relatively high bureaucratic-centralized in term of funding. Government expenditure on higher education still accounts for 75% of most of the public universities’ budget (Weesakul, Charsombut, Ratchapaetayakom, & Chinnamethipitak, 2004, p. 17). Public universities are still the main absorber of the increasing

demand of access to higher education. Between 2001 and 2005, the proportion of students in the formal system of public to private institutions in higher education was approximately between 80 and 20 (MOE, 2006). It is inevitable that the government has had a dominant and direct role in governing and funding public universities in Thailand. The analytical framework of agency theory indeed helps to investigate and explain why the university responds to educational policy in different ways, particularly the institutional-autonomy policy as one of the aims of this study (cf. Lane, Kivistö, 2008, p. 142).

Thai higher education system in this study is investigated through three perspectives of agency theory: economics, political science and socio-cultural agency theory. Indeed, *the objective is to examine to what extent agency theory can be applied to the government-university relationship in terms of funding (economics agency theory), monitoring (political science agency theory), and cultural embeddedness of favoritism (socio-cultural agency theory)*. The purpose of the employment of agency theory is to generate and systematize an alternative of a theoretical understanding on how the government governs public universities in Thailand.

### **1.3 Methodology**

The structural design of the study is organized into six chapters: 1) introduction, 2) theoretical framework, 3) design of contractual relationships, 4) some context-setting factors of Thai higher education, 5) empirical insights, 6) conclusion. There are two main objectives of the theoretical and empirical chapters. The first objective is to utilize agency theory as an analytical framework for examining the theoretical and empirical dimensions of the government-university relationship. The second one is to apply three perspectives of agency theory (design of contractual relationships) as a conceptual framework to analyze the government-university relationship in higher education and institutional-autonomy policy in Thailand.

This study is based upon qualitative methodology. The qualitative approach does not claim to be replicable (Marshall & Rossman, 2006, p. 204). Indeed, the design of the study avoids controlling the study conditions, and concentrates on recording and analyzing the complexity of situational contexts and interrelations as they occur naturally. It is important to embrace the subjectivity of qualitative methodology. “Triangulation is not so much about getting “truth” but rather about finding the multiple perspectives for knowing the social world” (ibid., p. 204). The study approach is the so-called naturalist approach, in which naturalist philosophy

holds that one cannot separate the “known” reality from the values of the “knower”. In other words, the contribution towards the study relies on mind dependent from the naturalist point of view (Newman & Benz, 1998).

The empirical part of this study employs qualitative methods for data collection and analysis. The collected data is mainly comprised of official documents and reports from the Ministry of Education, Commission on Higher Education and International organizations such as World Bank, UNESCO and UN. In addition to different official documents and reports, digital records of speech and seminars made by former and current Secretary-General of Commission on Higher Education and previous research on related issues with this study are also included in the analysis. Although interview technique is not employed in the data collection due to time constraints, two digital records from the former and current Secretary-General of Commission on Higher Education and the previous research compensate and strengthen the validity of the empirical study.

The scope of the analytical framework will be organized around a single case study of Thai higher education by employing two main methods: document analysis and a case study. The document analysis in this study refers to “various procedures involved in analyzing and interpreting data generated from the examination of documents and records relevant to a particular study” (Schwandt, 1997, p. 32). Since higher education system in Thailand has not been vigorously explored and analyzed, this study could be one source that assists the expansion of in-depth analysis of the previous research done by other scholars. Moreover, it also helps enhance and systematize the unorganized data and information of Thai higher education for further research.

The case-study method has potential for increased validity of this study for several reasons (Newman & Benz, 1998, pp. 66-67). First, multiple data-collection techniques are used (e.g., document study, observation, and partial quantitative statistical analysis in the institutional-autonomy policy); the weaknesses of each can be counterbalanced by the strengths of the others. Second, the validity may be increased by checking the interpretation of information with experts and researcher who have analyzed topics relevant to this study. Third, with a case study there are generally a variety of data sources. Fourth, using a scientific method in which one hypothesizes something about the case and collects data to determine if the hypothesis should be rejected could add to validity and also help future researchers determine starting places for research.

## **2 AGENCY THEORY AND GOVERNMENT-UNIVERSITY RELATIONSHIPS FROM THE PERSPECTIVE OF AGENCY THEORY**

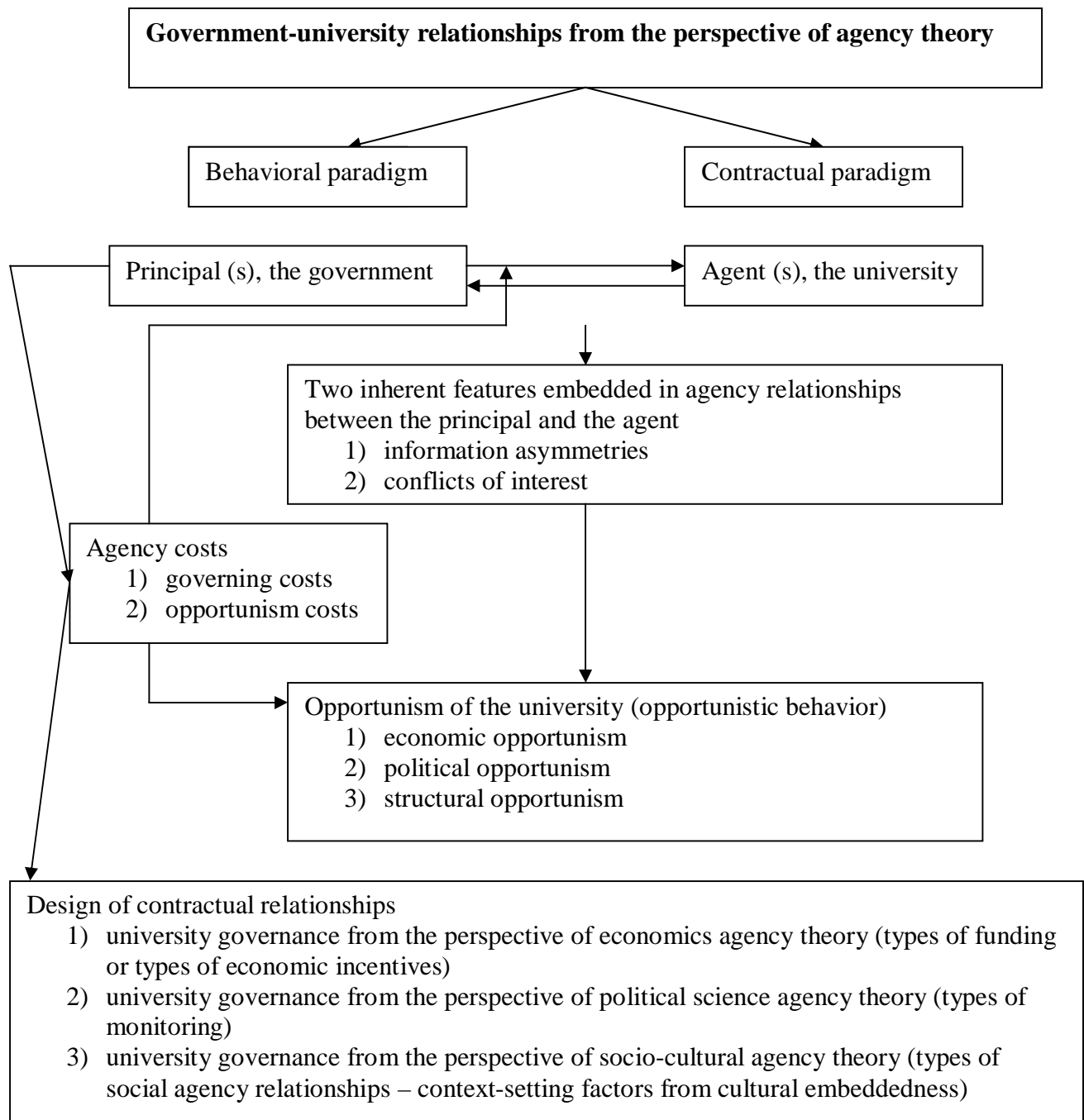
### **2.1 Agency theory**

The evolution of agency theory in economics is divided into two mainstreams: positivist stream and principal-agent stream (Eisenhardt, 1989). The differences between these two main literature streams are pointed out as the following. The positivist literature, in general, is less mathematical and more empirical in its orientation. Positivist researchers have paid attention on identifying situations in which the principal and the agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self interest behavior (ibid., p. 59). The biggest concern for the positivist camp has been to describe the governance mechanisms that resolve the agency problem. The other camp is called principal-agent researchers. They are concerned with a general theory of the principal-agent relationship and tend to be highly-formalized, using formal logic and mathematical proofs. Thus it is less accessible to organizational scholars. However, in general, these two camps share a common unit of analysis: the contract between the principal and the agent. More importantly, the two main streams are complementary. Positivist literature identifies various contract alternatives, and principal-agent stream shows which contract is the most efficient under varying levels of uncertainty in the analytical framework (ibid., p. 60).

There are three possible concepts of 'what', 'why' and 'how' that may explain the framework of agency theory. These three questions of what, why and how are used to simplify the theoretical concepts within agency theory. The Figure 1 illustrates and simplifies the underlying concepts and theoretical buildings within agency theory in this study.

1) To begin with, the 'what' question of the first concept is to describe what assumptions are used to formulate agency theory. The basic assumptions could be found in the combination of two notions: human behavioral assumption between two parties (*behavioral paradigm*) and a contractual agreement between two parties (*contractual paradigm*) (cf. Moe, 1984).

Figure 1 Diagram of the theoretical insights



Fundamentally, behavioral assumptions are used to explain other concepts related to agency relationships between the principal and the agent within agency theory. Indeed, the behavioral paradigm<sup>4</sup> tries to explore and investigate the underlying thoughts and motivations of decision-making when people have to make a decision. On the other hand, the notion of a contractual paradigm is a reflection of when two parties make an agreement to form agency relationships. When the contractual relationships are formed, the principal tries to monitor the agent's behavior with the fear that the agent will not perform effectively and efficiently, or the agent will behave opportunistically (as a result of behavioral assumptions). This, eventually, has led the principal into the creation of control mindset toward the agent.

Indeed, the contractual paradigm from the second notion illustrates how two parties form an agency relationship over one another. In simple terms, an *agency relationship (a contractual relationship)* consists of two people. One person (the principal) hires the other (the agent) to perform *a given task*. Indeed, the agency relationship takes place when an individual depends upon the action of another (Pratt & Zeckhauser, 1985, p. 3). The individual who performs the action is *the agent* and the affected party is called *the principal*.<sup>5</sup> The agency relationship normally functions through a contract, which is often chosen and designed by the principal. Subsequently, it is the agent's decision whether to accept the contract or not.

2) In the second concept, the 'why' question describes why there are problems in the agency relationship between the principal and the agent. The basic explanation of what causes agency problems<sup>6</sup> is based upon two factors. These two factors are inherently embedded in the principal-agent relationship. Indeed, the root of agency problems is comprised of two inherent features embedded in the agency relationship: conflicts of interest and information asymmetries (Kivistö, 2005, p. 13).

*Conflicts of interest or divergence of interests or goal conflicts* is the first inherent feature of the principal-agent relationship. From the view of behavioral assumption, the principal make an assumption that there are different self-interests (conflicts of interest) between the principal and the agent. When both parties have decided to have a contractual relationship, hidden goals

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<sup>4</sup> Behavioral paradigm is an alternative paradigm that theorists, for example *A Behavioral Theory of the Firm* (1963) by Cyert and March, try to move away from the conventional model of optimization, profit maximization and perfect information to the behavioral paradigm of psychology of human problem solving and individual choice (Moe, 1984, pp. 747-749).

<sup>5</sup> The details of the principal and the agent will be described in section 2.2.

<sup>6</sup> The agency problem can be illustrated through a classic example of the physician-patient relationship. In this case, the physician behaves as the agent who makes decisions regarding to the well-being of the patient (the principal). The patient is not able to control how the physician treats her or him as a result of the lack of medical knowledge of the patient (Hendrikse, 2003).

between the principal and the agent of creating the agency relationship are incompatible (Shapiro, 2005, p. 278). The different self-interests have consequently formulated agency problems.

*Information asymmetries* are the second inherent feature of the principal-agent relationship. What is asymmetric information then? *Information asymmetries* are the disparity in information between two parties that, in the ideal economic model, both parties are assumed to have perfect information in a transaction. But in reality, information is often asymmetric and incomplete. This is because the principal cannot observe all activities the agent does, especially the agent's dedication towards its assigned tasks. Sometimes, the agent bends the rules to better serve the principal or appear to be behaving well. Under the condition of information asymmetries, there are two challenges for the principal to deal with. First, the principal cannot perfectly and costlessly monitor the agent's behavior (Barney & Hesterly, 1996). The second challenge is how the principal can receive the complete information about the agent's behavior and activities.

Consequently, one of the biggest concerns arising from the conflicting interests and asymmetric information is *opportunistic behavior (opportunism)*. Williamson (1975, p. 26) defines opportunism as "pursuing self-interest with guile". In other words, opportunistic behavior means that the agent will exploit all the information asymmetries as much as possible in order to ensure that he or she (the agent) maximizes his or her own interests at the expense of the principal.

3) In the third concept (*design of contractual relationships*), the 'how' question, is to clarify how the principal responds to the opportunism of the agent that is derived from the goal conflicts and information asymmetries. Under the condition of incomplete and asymmetric information between two parties, agency theorists, therefore, are interested in incorporating a behavioral-control approach in order to analyze that why, and how these inefficiencies (agency problems) arise, and how they can be corrected. The interrelationship between the agent and principal is examined by the principal in order to ensure that the agent performs his or her agreed-upon task in the most efficient manner in the eye of principal.

Indeed, the principal is fearful that the agent will exploit asymmetric information by behaving opportunistically; therefore, the principal has to design a perfect relationship contract, if possible, in order to reduce agency costs derived from agency problems. *Agency costs* are defined by Barney et al. (1996) as a type of transaction cost that needs to be incurred by the principal to protect his or her interests from the probability that agents will engage in behavior that is incongruent with those interests. Agency costs are classified by different definitions. Jensen &

Meckling (1976, p. 308) classified them into three categories: 1) monitoring expenditures made by the principal to regulate and monitor the behavior of the agent; 2) bonding expenditures made by the agent to reassure principals; 3) residual agency costs are the costs that caused from unresolved conflicts of interest between the agent and the principal.

## **2.2 Government-university relationships from the perspective of agency theory**

The following classifications of the government-university relationship from the perspective of agency theory will be used in the empirical analysis of the study. The adoption of agency theory into higher education governance arrangements reflects the importance of interdependent relationships between states and higher education institutions. Agency theory draws attention, in general, to the theoretical and practical issues related to *control* (Kivistö, 2007, p. 41). Therefore, the central assumption used in applying agency theory as a theoretical framework of the government-university relationship in this study is mainly based on a perception of behavioral control from the principal (the government) towards the agent (the university).

There should be three basic elements constituting agency relationship between the government and universities: 1) principal(s); 2) agent(s); and 3) contractual relationships – it is how the structure and benefits of the contractual relationship between the principal(s) and the agent(s) are agreed upon. From the principal's view, the different types of contractual relationships (*design of contractual relationships*) will be utilized in order to minimize agency costs (opportunism of the agent).

### **2.2.1 Principal(s)**

Agency theory presents an analytical framework of the agency relationship, in which one party (the principal) considers entering into a contractual agreement with another (the agent), in the expectation that the agent will subsequently choose actions that produce outcomes desired by the principal (Moe, 1984, p. 756). Nevertheless, the actual relationship between the principal and the agent is not as simple as the classic interaction between a single principal that contracts with a single agent to operate given tasks on behalf of the principal.

In reality, the structural relationship is a web of interconnected interactions. An actor in the real framework of analysis inherently has both the roles of the principal and the agent. The principal has to resolve not only the fundamental problem of opportunism but also has to overcome the differences of competing interests among multiple principals themselves. Shapiro (2005, p. 267) refers to these complex situations in Adams' work (1996) describing these complicated agency relationships as 'Hydra factor'. For example, how do agents try to understand and reconcile the tasks delegated to them when they are receiving mixed messages and conflicting instructions from multiple principals? How do they do so when contract agreements and given tasks are vague by design of contractual relationships?

Moreover, individual agents have their own preferred interests responding to a given task. Indeed, the same incentives provided in the contract will have a different effect on different agents. For example, in university governance, some agents may prefer monetary rewards from the government without much concern with having autonomy. Conversely, other agents may have an interest in having more autonomy to manage their own affairs rather than much concern about receiving direct financial support from the government (Lane & Kivistö, 2008, p. 166).

The formation of agency relationships, initially, was a binary relationship between one principal and one agent. Due to the advantage of the simple analytical framework, organizational issues can be examined in a clear and rigorous manner. However, with the considerable applications of agency theory in political science, the significant importance of the structure of the principal has gradually been highlighted. Therefore, in political science agency theory expand the structural scope of single principal into multiple principals and collective principals. The term 'multiple principals' can be defined as a single agent having more than one contract with organizationally distinct principals; whereas 'collective principal' means a single agent having a single contract with a principal, but the principal happens to be composed of more than one actor (Lyne & Tierney, 2003, p. 5).

The government as the principal can be defined differently depending on the chosen context and perspective. In the broader sense, the government may refer to the whole body of national or regional public institutions performing under political or administrative functions such as cabinet, parliament, minister, president, prime minister. In this sense, the government can be observed as political delegations. On the other hand in the narrow sense, the government can be viewed as public bureaus or agencies such as ministries, departments or their sub-units operating under the control of some hierarchical superior political actor (e.g. cabinet, minister, president). These governmental agencies have the main responsibility for planning educational

policies according to national policies and distributing financial support on behalf of the central government (cabinet, parliament) (Kivistö, 2007, pp. 54-55).

In general, the term ‘government’ in this study is defined as a unitary principal. Nevertheless, when multiple principals have a significant influence on any analytical framework, the approach of the unitary principal will be altered to the approach of multiple principals in order to identify the internal interactions among principals that influence the role of the principal as a unitary unit.

### **2.2.2 Agent(s)**

Universities are considered as a single entity of a unitary agent under the analytical framework of this study. The university, therefore, as the largest authority in terms of the agent is composed of sub-organizational authorities such as the university board, academic staff and administrative staff. When the term ‘university’ is referred to, it indicates that the university is comprised of agents as a unitary unit. In some cases, these sub-organizational authorities will be discussed separately.

The government can treat the university in two different ways. One is to treat the university as a single unit. The other is to treat the university as sub-units of agents within the university. The focus of the analysis, therefore, varies according to target groups of the government’s intention. Indeed, for example, if the government merely improves the transparency of the university board, the main focus of interest will be on the level of the university board. On the other hand, if the government arranges to improve the transparency of all the sub-units within the university, the primary attention of analysis will draw attention to the level of a single unit of academic enterprise.

When the agent has decided to make a contract with the principal, he or she has two preconditions. As a passive actor who has to follow the governmental policy, the university has to behave honestly in the eye of the principal in order to retain the support of resource allocation from the government. On the other hand, as an active actor who possesses superior information and disparate specialties of academic community (Clark, 1983), and mediating power or a *shock absorber among different interest groups* (cf. Moja & Kulati, 2002, p. 233) between the government and other actors such as students and markets, the university owns a considerable amount of bargaining power when a negotiation of a contract occurs with the government.

### **2.2.3 Contractual relationships: mode of control and motivation**

When a contractual relationship is formed, goals, information, monitoring and incentive systems will be set up according to voluntary or coercive agreements of both parties. The voluntary agreement usually means both parties are willing to have a contractual relationship. Both parties can benefit from the contract. On the other hand, the coercive agreement can be regarded as a contribution of political scientist perspective when agency theory is applied to the theoretical framework of the government-university relationships.

The coercive agreement can often be found in the bureaucratic system when the agent, such as a civil servant, has too little bargaining power against the government. From the view of coercive agreement, forming a contractual relationship is not the willingness of the agent but rather a sign of retaining a status quo of the agent (cf. Moe, 2005, p. 227). In some circumstances, the agent does not want to choose any contracts offered from the principal. But in order to defend the status quo,<sup>7</sup> the agent has to accept one of the choices offered by the principal although the contract does not benefit or hinder the agent's interests. This dilemma often takes place under the umbrella of a bureaucratic system, but this form of superior power of the principal also exists in markets.

Indeed, when the university or factions within the university accept an educational policy accompanied with some incentives from the government, it does not indicate that the university has a mutual benefit with the government. Although such policy has a negative impact on the university's benefit, the university has to accept such a policy. This is because the government possesses superior political power that can explicitly or implicitly alter or even replace the status quo of the existing university with a new one.

From the perspective of agency theory, the following are essential compositions that reside in the contractual relationship between the government and the university. The categorization will be used in analysis in the empirical part of the study.

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<sup>7</sup> Defending status quo can be explained with an example: 'a criminal presents his victim with a classic choice: your money or your life' (Moe, 2005, pp. 226-228). If the victim chooses to hand over his wallet to the criminal, it does not mean that this is a case of voluntary exchange. It is a coercive exchange that the victim voluntarily gives up his wallet because he is better off giving up his money rather than getting killed.

## **A) Goals or given tasks**

The government-university relationship can be found in many forms but it often stipulates the relationship contract in terms of tasks, processes and outcomes. Goals in this sense simply determine how the agent has to perform under a given task and the expectation of outcomes under the agreement with the principal

## **B) Opportunism costs**

Subsequently, with the fear of paying agency costs (governing costs + opportunism costs) from the principal's view, there is a great attempt to reduce this agency loss. Agency costs for the government can be defined as (Kivistö, 2007, p. 126):

Agency costs for government are the total sum of the costs resulting from governing universities plus the costs incurred because of the opportunistic behavior of the universities. The total governance costs include the direct costs associated with the governing procedures, but also the indirect costs that are incurred because of the dysfunctional effects they cause. On the basis of predictions indicated by the agency variables (above), it seems that the government will inevitably suffer relatively high agency costs. The only difference is how large these costs can become and the ways in which they are accumulated.

From the perspective of agency theory, the major concern about university governance highly emphasizes opportunism costs. Opportunism costs are the costs resulting from opportunistic behaviors by the university contrary to the interests of the government (Kivistö, 2007, p. 197). Therefore, the opportunism costs of the university are the focus of attention in this study when the government wishes to decrease agency costs.

Two main contributing factors of opportunism costs are derived from the divergence of interests between the principal and the agent and information asymmetries as discussed previously. Information asymmetries and conflicting interests within university governance can be found in many forms. One form of conflicting interests in the government-university relationship, for example, can be referred to what should be the role of the university in society. The different perspectives on the role of the university are whether social and cultural functions or economic function may lead to opportunistic behavior from the point of view of the government. Kivistö (2007, pp. 56-66) classifies information asymmetries of the government-university relationship into three dimensions: 1) informational asymmetries resulting from work;

2) information asymmetries resulting from organizational complexity; 3) information asymmetries resulting from complex production technology.

A classification of the opportunism of the agent (the university) can be divided into political, economic and structural opportunism. *Political opportunism* occurs when the main motivation of the agent to accept a contract with the principal results from maintaining or raising its status quo rather than from economic rationale. For example, when a task is assigned, the acceptance of the task implies a political strategy of the agent to survive in the system since the given task is a coercive tactic of the principal. The strategy of maintaining or raising status quo of the agent is done through the acceptance of the contract without questioning or warning the principal of the feasibility, efficiency and effectiveness of the goals.

*Economic opportunism* occurs when the agent is primarily motivated by the self-interest of economic gain. This means that the agent will take advantage of the contract whenever he or she sees a loophole in the contract. In this sense, the rational choice of utility maximizing from the part of the agent's interests is considerably emphasized. Individual and collective gains in terms of economic profit are calculated when the agent starts behaving opportunistically.

*Structural opportunism* occurs when the agent resides in an embedded opportunism environment. The structural environment has a tendency to intensify opportunistic behavior of the agent. Opportunism of the agent is exposed consciously or unconsciously through the interaction among actors in the system. Such opportunistic behavior can be penetrated through the cultural embeddedness of a system such as favoritism and immature bureaucracy.

Moreover, the agent sometimes bends the rules to better serve the principal in order to appear to be behaving well. This pattern of opportunistic behavior could mean 'opportunistic cross-subsidization' (Lane & Kivistö, 2008, p. 161). For example, the government provides the same level of financial support per undergraduate and graduate student, but the university may actually distort the rules of the contract by spending more on prestige-generating graduate students against the will of the government. The opportunism of the university in this case means the graduate students are taught by expensive expert scholars in small classes while the undergraduates are taught in large classes by less-expensive, relatively inexperienced teaching assistants (p. 146).

### **C) Information, monitoring and incentive systems**

University opportunism compels the principal to monitor the behavior of the agent by designing a mechanism of control and motivation. The mechanism is closely intertwined with the provision between the aspect of control and incentives. The aspect of control normally functions through information and monitoring systems. The aspect of incentives proceeds with the combination between an exchange of utility between the principal and the agent to satisfy both parties' interests and an implicit control mechanism to prevent the opportunistic behavior of the agent. Fundamentally, the government plays a significant role in designing contractual relationships that align conflicting interests of both parties through the mechanism of information, monitoring and incentive systems.

It is difficult to identify these closely interconnected functions of these three systems of information, monitoring and incentive mechanisms. However, the intimately intertwined transactions assist the principal to design a satisfactory mechanism of behavioral control. Indeed, the design of an efficient incentive structure is closely linked with the development of monitoring systems as well as the mechanism for inducing the agent to reveal as much of his privately held information as possible (Moe, 1984, p. 756). Incentives, in fact, implicitly target at the creation of an environment in which it is possible to control the agent's behavior. Incentives for the agent can be perceived either as separate entities from the information and monitoring systems or a combination with the information, monitoring systems as mechanisms of behavioral control.

The government may provide two sorts of incentives: intrinsic and extrinsic incentives (Lane & Kivistö, 2008, p. 173). In terms of the separate units of information and monitoring systems, the form of incentives can be found at both institutional and sub-institutional levels. At the sub-institutional level, the extrinsic incentives are, for example, future income and career advancement for academic and administrative staff. The combination between funding mechanism, and information and monitoring systems are often found on the institutional level. Resource allocation for the university as an entire organization is often used as a governmental instrument of behavioral control via economic agreements. The intrinsic incentives can be defined as incentives of status and power, self-esteem, behavior according to moral norms.

The application of agency theory in university governance could be penetrated via *design of contractual relationships* (system of control). The government has to construct the design of contractual relationship in order to constrain the opportunistic behavior of the university. The basic assumption of such design is to monitor and control the opportunism of the university that

is derived from informational asymmetries and divergence of interests between the government and the university.

### **3 DESIGN OF CONTRACTUAL RELATIONSHIPS: UNIVERSITY GOVERNANCE FROM THREE PERSPECTIVES OF AGENCY THEORY**

#### **3.1 University governance from the perspective of economics agency theory: contractual design via economic arrangements**

University governance under the economics agency theory reflects how the structure of contractual relationship is based upon *behavior manipulation* and *economic incentives*. The key question of the government is how to utilize economic incentives in order to manipulate the university to act in accordance with the government's education goals, and limit opportunism. In this sense, economics agency theory tends to utilize economic agreements as a mode of motivation and control in order to curb opportunistic behaviors and receive the best performance from the university.

According to Lane and Kivistö (2008), economics agency theory tends to understand and examine relationships as bilateral relationships between one principal and one or more agents (p. 152). From the perspective of economics agency theory, the contract is understood to be an instrument enabling economic co-operation between the principal and the agent. The main objective of the contract is to explicitly set the task for the agent, and introduce the detailed means through which the agent will be compensated for performing the task (p. 153).

The economic incentives utilized to control and guide the university's behavior can be found in the arrangements of resource allocation. The application of funding mechanism is a major source of provision for compensating the university which devotes its effort to complete the given task. Moreover, the economic-incentive arrangements are also an attempt to overcome the problem of university opportunism. Indeed, the government as the principal has to find an optimal level, where the power of governmental purse starts to really affect the behaviors of the university (Gornitzka, Stensaker, Smeby & de Boer, 2004, p. 97).

Economics agency theory proposes two alternative dimensions for the principal to overcome the agent's opportunism: behavior-based contracts and outcome-based contracts (Eisenhardt, 1989). These two ideal types of agency contract can be operationalized for the analysis of the government-university governance in two terms of governance procedures:

behavior-based governance and performance-based governance (output/outcome-based governance) (Kivistö, 2007, pp. 106-109).

### **3.1.1 Behavior-based governance: direct and centralized resource allocation from the government**

The economic intention of behavior-based governance is to reward the university on the basis of the university's observed effort in performing educational policy. The key control mechanism is the combination between *input-based resources of the government and observed behavior of the university through tight bureaucratic mechanisms*. The power of purse and authority of the government has an economic interplay between reward and punishment. This type of governance is more centralized and bureaucratic. The government itself plays a significant role in controlling the university's behavior. The mechanism of resource distribution mirrors a tighter control towards the reliance of previous behavior and performance of the university. The accountability of academic self-governing is under close attention of monitoring mechanisms that can be seen in the classical governance where bureaucracy has an influence on the distribution of input-based resources.

Indeed, the government controls the university opportunism through a conventional and centralized economic approach comprised of two interrelated factors. The first factor is the observed behavior of the university through the bureaucratic system. The university has to report what it has done and what it is expecting to do according to the conventional rules, regulations and law of bureaucratic procedure. The second factor is input-based resources from the government. The government exerts its power of control directly through the centralized resource allocation or input-based resource allocation. Broader instances of input-based resource allocation are incremental funding<sup>8</sup> (historical allocation) and line-item budgeting.

The incentives from allocating resources that agree on the contract are determined by *promised results* rather than *achieved results* (cf. Burke & Modarresi, 2000, p. 434). In other words, behavior-based governance puts more emphasis on what the government should do for the university in term of resource allocation rather than what the university should do for the

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<sup>8</sup> Incremental funding or incremental budgeting is "the estimation of the cost of maintaining and institution for the next financial year at the same level of activity as in the previous of current financial year. Usually this task is accomplished through negotiation between individual institutions and financing agencies on the basis of draft budgets that may specify quite detailed categories of expenditure and with a review of the budgetary out-turn of the previous year incorporated into the negotiation process" (Sheehan, 1997, p. 132).

government. This type of input-based resource is mainly based on traditional budgeting focusing mainly on tradition-input factors such as current costs, student enrollments and inflation increases (ibid., p. 434).

A theoretical concept clarifying this governance approach can be found in the work of Liefner (2003). Liefner describes this form of governance through the type of resource allocation. Fixed budgets or stable allocation illustrating this behavior-based governance have effects on the agent's behavior (the university) through less concern of possible failure from the government. The agent enjoys the flexibility (under the government's rules) to operate in any manner the agent wishes because the government guarantees funding and salaries regardless of performance (ibid., pp. 477-479). Ideally, this form of resource allocation on the agent's behavior is based upon non-competitive conditions of allocation. Types of activities and efforts on the given goals depend upon motivation and interests of the agent. It may create a mismatch of interest between the government and the university.

### **3.1.2 Performance-based governance: indirect and less-centralized resource allocation from the government**

Performance-based governance is a type of university behavioral control mechanism that relies primarily upon *input- and output-based resources of the government and the university's outputs via self-regulation mechanism of the university* (cf. Liefner, 2003; Kivistö 2007). The government decides how much autonomy should be allocated to the university. In this type of governance, it appears that *trust* is one of the key determinants for agency relationships between the government and the university. In this type of governance, the university appears more trustworthy than in the behavior-based governance in terms of resource allocation. The government gives a block grant to the university with the notion that the university itself has the capacity to manage its own affairs in a more flexible and responsive manner than the government. However, this does not signal that the university under performance-based governance is more trustworthy than the university under behavior-based governance. Rather, it can be seen that either the government shifts the burden of producing the output into the hands of the university or the university has a better and closer position to respond actively to the changing environment.

The incentives given to the university through performance-based governance are primarily to motivate the less-motivated universities to work harder and perform according to the

given criteria. Ideally, the main hypothesis of introducing competitive elements or performance-based funding into universities can be conceptualized from (Liefner, 2003, pp. 477-479):

- 1) Agents that have been rather inactive before the introduction of performance-based resource allocation will have to work harder.
- 2) With performance-based resource allocation agents will tend to avoid projects with a high chance of failure. Departments and individuals will concentrate on activities where success can be expected because they will have to meet a formula's criteria or market demand.

In general, the term 'performance-based governance' can be defined as a contractual agreement between both parties on the amount of government funding and pre-determined outputs (Kivistö, 2007, p. 106). Performance-based governance is normally arranged through performance-based resource allocation that is assessed via *output indicators* such as exams passed, credits accumulated and the number of undergraduate or graduate degrees and the number of publications (ibid., pp. 106-107). Examples of performance-based resource allocation are project funding and contract-mission-based funding.

### **3.2 University governance from the perspective of political science agency theory: contractual design with checks and balances among political institutions and interest groups**

From the perspective of political science agency theory, cooperation among different self-interested individuals or groups that generate bargaining power is emphasized. The central cores of power and institutions<sup>9</sup> (cf. Bell, 2002, p. 1) could be regarded as elementary contributions towards the development of political science agency theory. Therefore, it focuses closely on the exercise of the power of interest groups formulating via political institutions.

Unlike economics agency theory, portraying the mechanisms of behavioral control through economic-incentive arrangements, the conceptual notion of political science agency theory is based upon the *control mechanism of checks and balances among political institutions and interest groups*. In other words, agency relationships from this perspective have a tendency

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<sup>9</sup> In this study, institutions are defined as either formal institutions and practices or a process or set of processes which shape behavior of individuals (informal routines or relationships) (Bell, 2002, p. 1). In other words, institutions mean 'established law, custom, or practice' (ibid., p. 1).

to the involvement of multiple principals that try to compete and cooperate with one another in order to control the agent's behavior (the behavior of the university).

The reliance upon the concept of multiple principals differentiates the style of governance of this perspective from the economic one. The government (one principal among other principals) can not only exert its power (through monitoring and information systems) to monitor the university's behavior but can also borrow the power of other principals that compete to control the university. Indeed, behavioral control from the perspective of political science investigates how multiple principals within a unitary principal can aid the government to keep an eye on the university's behavior. Politically, this indicates the conceptual framework of political science agency theory posits that the mechanism of information and monitoring systems are not a singular event; rather, it is a complex array of interactions among external actors (multiple principals, latent oversight mechanism) as well as the government itself (manifest oversight<sup>10</sup> mechanism) (cf. Lane, 2007, p. 617).

In this study, information, monitoring and incentive systems from the perspective of political science agency theory are categorized into two dimensions of university governance. These two dimensions are *police-patrol governance* and *fire-alarm governance* (Lane, 2007; Lane & Kivistö, 2008, p. 146 adapted from McCubbins and Schwartz 1984<sup>11</sup>). These types of university governance are applied from the work of Ogul (1976), McCubbins & Schwartz (1984), Lane (2007) and Lane & Kivistö (2008).

### **3.2.1 Police-patrol governance**

Police-patrol governance is a direct form of monitoring mechanism that the government dispatches *delegated inspectors* (governmental agencies) to go around detecting the opportunistic

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<sup>10</sup> Lane defines 'oversight' as the following, "within political science literature, oversight is generally defined as the monitoring of organizational activity and/ or attempts to control organizational activity" (2007, p. 619). The example of latent and manifest oversight mechanisms can also be found in the work of Lane as well (2007, p. 637). Originally, Ogul (1976) distinguished between manifest and latent forms of oversight as formal and informal efforts to bring agencies into compliance with congressional demands (Ogul and Rockman, 1990, p. 6). Its applications to higher education mean that manifest oversight relies on formal mechanisms such as appropriations hearings and visits to campus. On the other hand, latent oversight includes a range of informal mechanisms, including activities such as communication among staffers (Lane, 2007, p. 622).

<sup>11</sup> The original work of McCubbins and Schwartz is about their argument that U.S. Congress had not neglected its oversight responsibility, as a response toward scholars' complaints that the Congress had done little or nothing to oversee administrative compliance with legislative goals.

behavior of the university. These delegated inspectors act on behalf of the government to enforce rules, regulations and law on the university in order to prevent opportunism.

Police-patrol governance is direct, active, manifest, and centralized, and tends to be in operation regardless of whether the university is believed to be behaving opportunistically or not. In higher education, this type of governance functions through the delegated governmental agencies that have the task to monitor and detect universities' opportunism. These governmental bodies, such as national offices in charge of countering corruption and quality assurance organizations, are equipped with the power of monitoring delegated by the government.

### **3.2.2 Fire-alarm governance**

In contrast to the police-patrol governance, fire-alarm governance is an indirect and latent mechanism. The government has a role in encouraging *proxy inspectors* (multiple principals) to help the government to do the monitoring job. Indeed, fire-alarm governance is less centralized and involves less active and direct intervention than the police-patrol governance (cf. McCubbins & Schwartz, 1984, p. 166).

For example, if a student (as a principal in terms of service recipient of the university) suspects the university's behavior, he or she will send an e-mail of complaint to the government. As a result, it is possible for the government to begin investigating institutional activity before the university president is even aware of the event's existence (Lane, 2007, p. 638). In this sense, the proxy inspectors help to expand the governmental space of control from a single principal (the government) towards multiple principals. The government can encourage and establish a system of rules, procedures and informal practices that enable individual citizens and organized interest groups to examine the universities' operation and behavior. Moreover, with the provision of the mechanism that can assist citizens and interest groups to have access to information and to administrative decision-making processes of the university, it can alleviate the burden of governmental oversight.

Fire-alarm governance reflects a collective action among multiple principals in order to battle against the agent's opportunism. It requires a broad coalition of diversified principals to monitor universities' behavior. Such collective action suggests that it is not merely the responsibility of the government to oversee universities. But it is the responsibility held by multiple principals – including the parliament, courts and jurisdictions, unions, the private sector,

civil society organizations, associations of parents, youth movement and the media (cf. Hallak & Poisson, 2007, p. 277). Hallak and Poisson (cf. 2007, pp. 276-278) further remark this formation of multiple principals as participation, and social and monitoring control, in which stakeholders (multiple principals) have a voice in decision-making and access to information related to the university's operation and activities.

Fire-alarm oversight is a fruitful source of control mechanisms when it comes to establishing information, monitoring and incentive systems. Fire-alarm governance, nevertheless, is a two-edged sword. Some concerns about its operations require a close attention as well. There are three considerations of the fire-alarm governance for the government (cf. McCubbins & Schwartz, 1984).

First, when utilizing fire-alarm mechanisms, the government does not have to address concrete rules of the game unless other principals affected from the university's behavior have complained about it, in which case the government can receive credit or more compliance for their intervention. The government can now spend less time on overseeing by sharing the responsibility of monitoring with multiple principals, or spend the same time on more specific cases brought up by the multiple principals. Indeed, under the fire-alarm mechanism, the government can bring cases that have not received adequate remedy from the police-patrol mechanisms into a closer and more careful scrutiny.

Second, although fire-alarm governance can be as costly as police-patrol governance, most of the costs are borne by multiple principals (citizens and interest groups). However, the burden of behavioral- control costs, ultimately, is shared among many principals competing for the control of universities. This has alleviated the information, monitoring and incentive costs of the government. Indeed, fire-alarm governance is less costly than police-patrol governance in terms of direct costs of the government.

Third, any warning systems can malfunction. False alarm is an inevitable error in fire-alarm overseeing. Those principals who are given the opportunity to play the role of proxy inspection (fire-alarm oversight) are also able to exploit the informal overseeing by deceiving the government with false information. Indeed, the reliability of the information and credibility of the warning sources requires close attention from the government. This is because the operation of such monitoring mechanism is not systematic so that the government can easily check the sources of the data.

### **3.3 University governance from the perspective of socio-cultural agency theory: decoding cultural value orientations and structural opportunism**

In analyzing and studying contemporary governance arrangements in higher education, cultural context is often ignored. To comprehend a manifestation or implication of an educational policy on an individual system requires not only structural, political and economic analysis, but also the understanding of the social and cultural glue that holds together different stakeholders in a particular higher education system.

The changes in the adoption of the paradigms of the governance arrangements in higher education pose a challenge not only for governments but also institutions wanting to maintain their strategic positions. The support and resistance of a new governance arrangement rely heavily on the self-interests of various groups in the whole system. Indeed, the application of any educational model requires a deep understanding of how sub-units in a system and how a sub-system in the whole system interact and respond to one another.

In other words, the context of *individual ethnic cultures and structural cultures embedded in a system or a nation* is one of the significant factors determining the expected implications of the governance arrangements in higher education systems. Uzzi (1996, p. 674 ) refers to *embeddedness* from the work of Granovetter (1985) and Crosby & Stephens (1987) as “the process by which social relations shape economic action [and political action] in ways that some mainstream economic schemes overlook or misspecify when they assume that social ties affect economic behavior [and political behavior] only minimally...”. Indeed, in addition to exploring and explaining the underlying interactions of agency relationships from the economics and political science agency theory, the concept of cultural embeddedness of different systems can be employed as a complementary view to enhance the analytical framework of agency theory.

The differences in cross-cultural underpinnings have a substantial impact on the theoretical framework of agency theory. For instance, “To what extent does national culture<sup>12</sup> alter agency theory predictions regarding compensation?” (Johnson & Droege, 2004, p. 325) is a challenging question related to how cross-cultural differences significantly determine the design of contractual relationships between the government and the university. Indeed, the broader understandings of cross-cultural compensation help strengthen the application of agency theory (p. 326).

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<sup>12</sup> Culture can be defined here as “the collective mental programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede, 2001, p. 9); and the sources of one’s mental programs lie within the social environments in which one grew up and collected one’s life experiences (Hofstede, 1991, p. 4).

The classical question: ‘Does one size fit all?’ raises an awareness of the impact of different cultural contexts on the structural design of behavioral control (the design of contractual relationships). The adoption of an educational model originated from abroad requires a serious consideration of cultural context of both where the model was created and where the model has been adopted. Fukuyama (1995, p. 37) has argued about the importance of cultural influence on the dimension of economic development by stating that “Modern economists tend to identify rational ends with maximization of utility, which is usually understood as the greatest possible consumer welfare. In this respect many traditional cultures (including the traditional culture of the West) are arational or simply irrational with respect to ends because economic well-being ranks lower than other objectives...Many Westerners tend to dismiss non-Western cultures as irrational”.

Although agency theory provides undeniably valuable insights from the perspectives of economics and political science, it fails to capture the concepts of human beings’ different incentives and self-interests in terms of cultural embeddedness. It fails to describe *unequal rationale of different ethnic cultures that motivates and influences the formation of agency relationships*. This is because culture shapes all aspects of human behavior, including economic and political behavior. What is considered as rational in one society may be irrational for other societies. Indeed, the interpretation of rational incentives and self-interest in one community is not compatible with other communities holding different beliefs, values and norms. Cultural disparities, therefore, should be taken into account in designing a contractual relationship from the agency theory perspective.

One thing that has to be mentioned is that agency theory has been developed in the Western academic world in order to constrain the agent’s opportunism. This makes the analytical concepts of overcoming opportunistic behaviors mainly based on the problems originating in the West. But those countries adopting the agency theory model as a framework of problem-solving have different types of problems and different cultural underpinnings embedded in their structural systems and social relations. Thus, the consequences of agency theory mechanisms functioning in different national contexts are not identical.

How governments intervene in higher education is one of the most crucial determinants of the design of behavioral-control mechanisms. A higher education system has its own unique characteristics in many dimensions. The type of intervention of the government in one system cannot be duplicated as it exists in other systems.

There should be two factors that should be taken into consideration when the government makes an attempt to intervene in higher education affairs. The first factor is a set of *academic beliefs* that hold diverse stakeholders together within a higher education system. Policy instruments of the government's intervention do not easily shift the robust anchor of the culture of academic beliefs. Such beliefs can be called as factors of mutual interests among academic community. Indeed, higher education systems in many countries have more or less shared ideas of academic stereotypes.

There is also another key factor that has a great deal of influence on the set of academic beliefs (the first factor). This second factor can be defined as a context-setting factor. This factor can be interpreted from many approaches such as organizational culture, local and international frameworks, historical and cultural backgrounds; political, economical and religious settings. Therefore, such definition of context-setting factor deeply determines and influences the first factor. As a result, the holistic framework of how a higher education system operates should function according to the beliefs of academic community<sup>13</sup> and context-setting factors. This has leads to the introduction of socio-cultural agency theory in this study.

It is important to note here that agency theory draws attention to the flow of information, and political and economic exchanges. With the premise of context-setting factors, this means that the dynamic flow and exchanges of the interaction between the principal and the agent have to go through different units embedded with its own unique and intrinsic context-setting variables. Indeed, the context-setting factors differentiate the process and outcome of the mechanisms of behavioral control. The expectation that information, monitoring and incentive systems designed for one system will have equal impact on other systems is a dangerous assumption. This has reflected the significant importance of the agency relationship between the government and universities in different context-setting frameworks. *In this study, the differences of national context-setting variables are the central focus of the analysis. More precisely, the purpose is to examine how the mode of behavioral control functions in different cultural conditionings by using the context of higher education in Thailand as a case study.*

Theoretical and empirical studies of agency theory in socio-cultural approach in agency theory have not been systemized and can be found in the most unexpected of places (cf. Shapiro, 2005, p. 274). For example, Adams (1996) illustrates European colonialism in the seventeenth

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<sup>13</sup> Maassen (1996, p. 13, adapted from Clark 1983) defines the fundamental characteristics of universities (beliefs of academic community) as “fragmented organizational structure, diffused and decentralized decision-making processes with respect to the primary activities of teaching and research, and incremental approach to institutional innovations”.

and eighteenth century in Asia; Kiser and Cai (2003) reveal Chinese State bureaucratization that occurred two millennia before any of the European states, early modern tax farming, and types of corruption in pre-modern Asian tax administration; and Johnson and Droege (2004) demonstrate how cross-cultural underpinnings should be considered by human resource managers. In addition, the most difficult question of socio-cultural agency theory is that how to measure and identify the cultural conditions of an individual nation that influence social contractual relationships (informal agency relationships) between the principal and the agent. And how such cultural dimensions, subsequently, influence the political and economic contracts between the principal and the agent.

Cultures, therefore, are the essential point to elaborate on the flow of information, and economic and political exchanges within agency relationships. In this study, the following concepts are proposed as an intention for further development of agency theory from the dimension of socio-cultural perspective. Indeed, with the emphasis on the analytical framework of national cultural underpinnings, socio-cultural agency theory is likely to put a great emphasis on three dimensions as presented in the following.

### **3.3.1 Decoding cultural value orientation**

It is a mission of the principal, in this case, the government, to *fully grasp the significant potency of an individual culture embedded in social relations of an individual nation that can exert its influence over agency relationships of the sub-units within that individual nation*. In other words, the principal has to decode the influences of cultural norms and values at different levels of the agency relationships that have an impact on the agent's interpretation towards a set of rules in behavioral control mechanisms from the economics and political science agency theory. The underlying assumption of the first dimension is: 'why does the same set of governance arrangements (the same sets of behavioral-control mechanism) result in different outcomes in different contexts?'. There have been scholars that have worked intensively on cultural differences at the national level around the world: 'cultural value<sup>14</sup>orientations' (Schwartz, 2004) and 'common elements within each national culture' (Hofstede, 1980, p. 45). The contributions

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<sup>14</sup> According to Schwartz, cultural value "emphases shape and justify individual and group beliefs, actions, and goals. Institutional arrangements and policies, norms, and everyday practices express underlying cultural value emphases in societies" (2004, p. 43).

of their work have been in detecting and interpreting the national cultural differences through empirical and statistic data.

### **3.3.2 Building up feeling of trust between the principal and the agent**

Agency theory draws attention to minimizing agency costs. Thus, the key to alleviating agency costs, particularly opportunism costs from the view of the socio-cultural agency theory is *in to increasing the degree of trust between the principal and the agent*. An instance of socio-cultural agency theory in higher education can be found in the work of Gornitzka et al. (2004). They address trust as vital for the government-university relationship. The empirical cases of contract arrangements in the Nordic countries – Finland, Sweden and Denmark – are used as the examples of the potential of socio-cultural agency theory in solving the efficiency-effectiveness dilemma.

Gornitzka et al. (2004) indicate that many existing relationship contracts (agency relationships) of the government-university contracts in the Nordic countries seem to imply a stunning paradox (p. 16). Their interest in understanding contract schemes (relationship contracts) as broader regulatory devices derives from the more formal government-university relationship contracts of recent initiative in these countries. Such contracts emphasize the economic perspective. These contracts usually address institutional funding and specify institutional outcomes agreed upon after negotiations between the government and individual institutions such as the number of graduates, exams and credits taken, whereas the qualitative aspects of higher education are frequently ignored.

Although the relationship contracts in these three Nordic countries are more economic-oriented and lack emphasis on the issues of quality, these authors argue that such contract arrangements appear to build on the prior close relationship between the state and the higher education institutions. The introduction of new economic-oriented contracts has not significantly changed the way higher education is steered in this region. The so-called academic autonomy that has usually been related to departmental and individual autonomy has not been significantly affected (Gornitzka et al., 2004, p. 12). Instead the new relationship contracts alleviate the problem of relatively weak institutional leadership so often found in the Nordic countries. The universities are motivated to develop strategic goals in order to respond effectively and efficiently to new changes.

Indeed, the new design of contractual relationships between the government and universities based upon the *feeling of trust* in Nordic cultural embeddedness helps lessen the

agency costs of coordination in the relationships (cf. Gornitzka et al., 2004, p. 17). When the feeling of trust between the government and higher education institutions is relatively high, the governments can easily choose either behavior-based governance or performance-based governance without much concern about opportunism, especially in performance-based governance. In other words, the governments believe in the trustworthiness of higher education institutions and that the institutions are likely to behave less opportunistically for their individual interests as an exchange for freedom in their own matters. Indeed, they will behave strategically in order to produce the best outcomes with less concern about procedures surrounded by bureaucracy and red tape.

As in the case studies discussed above, one of the crucial factors that help constrain the universities from behaving opportunistically is the high level of trust of the agent or the high level of trust between the principal and the agent. The economic-oriented incentives in the new relationship contracts did not considerably alter the honesty of the institutions' behavior. Certainly, information asymmetries generated between the government-university relationships are still there. It is impossible to reduce these asymmetries to zero. Nevertheless, trust, as a relatively cheap resource for coordinating the principal-agent relationship, is worth retaining and creating.

From the perspective of socio-cultural agency theory, there are two goals for the principal to achieve if the principal wishes to control the agent's opportunism through social agency relationships. First, it is to investigate how cultural embeddedness of each individual nation affects the formal rules and regulations created by the principal. Second, more importantly, it is to learn how to create, enhance and correct the cultural embeddedness in order to raise the degree of trust between the principal and the agent.

A good example that reflects the close relation between cultural embeddedness and trust in the organizational behaviors is social capital. The *social capital*<sup>15</sup> in terms of trust lessens what economists call 'transaction costs'. Widespread distrust in a society, according to the combination of agency theory and social capital (trust) perspectives, generates higher 'agency costs' than in high-trust societies. In other words, in a society where people who do not trust one another, the principal and the agent will end up cooperating only under a system of formal rules

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<sup>15</sup> Fukuyama (2000, p. 2) defines social capital as an instantiated informal norm that promotes cooperation between two or more individuals. Social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it (1995, p. 26). The norms that constitute social capital can range from a norm of reciprocity between two friends, all the ways up to complex and elaborately articulated doctrines like Christianity or Confucianism. Fukuyama also mentions that social capital cannot be so easily created or shaped by public policy.

and regulations. From agency theory's view in a low trust society, the agency costs are higher as there are needs for intensive contractual design to monitor opportunistic behavior.

Social capital can be regarded as a part of social agency relationships that helps to alleviate the agency costs. All economic and political transactions are performed by humans who are subjected to the social and cultural beliefs, values and norms. Social capital is difficult to measure but it has a significant impact on the mechanisms of behavioral control. The absence of consensus on how to measure it poses one of the greatest weaknesses of the social capital theory. To define and understand the potential of social capital, the development of discourse from various disciplines is required. Rankin (2002, p. 3) points out that a popular discourse of social capital in the sense of sociologist Robert Putman (1993, p. 167), has "features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions." When people engage in networks and forms of association, the argument goes, they develop a framework of common values and beliefs that can become a 'moral resource' (Putman, 1993, p.169).

In addition, the discourse of social capital gives a pragmatic insight of how the principal can utilize such discourse as a strategic policy for higher education. The discourse of social capital has been applied in many realms of development. With strategic policy, social capital has been used to the significant alleviation of poverty worldwide.<sup>16</sup>

Another conceptual contribution relevant to trust is *moral economy*. Smith (2006) defines morality as socially constructed values that are mediated in context: commercial culture, organizational norms and systems, plus individual behavior. As a result, ethical behavior emanates from values, the behavior being both mediated by the context and effecting the context (p. 1). The author tries to explore the moral economy and trust by pointing out the importance of understanding the moral economy as an additional means to operationalize trust. The conclusion of this analysis indicates that trust can be enhanced by conceptually locating it within moral economy (p. 5).

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<sup>16</sup> One of the innovations from social capital is 'Grameen model' by Muhammad, Yunus from Bangladesh. Yunus and the Grameen Bank have been jointly awarded the 2006 Nobel Peace Prize. The model demonstrates the formulation of 'solidarity groups' through which women receive credit collateralized by 'group guarantee' rather than by tangible assets.

### **3.3.3 Designing contractual relationships fitting the level of cultural embeddedness of the agent**

It is the subsequent mission that the principal has to construct an appropriate structural mechanism to control the agent's behavior. It has to fit the level of cultural embeddedness of the agent. The cultural embeddedness of the agent means that collective values, norms and practices that influence a unitary unit comprised of agents. In other words, the structural disparity of cultural embeddedness considerably influences how the principal design information, monitoring and incentive systems. The different degree of cultural embeddedness is one of the crucial factors determining how a new structural control mechanism should be introduced in different contexts.

In term of differences of cross-cultural embeddedness in higher education, there is one example from Schwarz and Westerheijden (2004, p. 40). They draw attention to the significant importance of context-setting factor by addressing that one evaluation and accreditation model is not universal, and cannot be applied in every higher education system. The application should depend upon the individual context, "...the borrowing (some elements) of models for evaluation or accreditation from other countries, adaptations have to be made to the new context in which the model is being introduced. This is good policy, as instruments have to be fitted into and existing legal, institutional etc. framework, yet it makes the question of what one higher education system can learn from another much more difficult."

## **4 THE HIGHER EDUCATION SYSTEM IN THAILAND: SOME CONTEXT-SETTING FACTORS**

### **4.1 A brief history of Thai higher education**

How the higher education system in Thailand has been able to thrive in the rapidly changing conditions with domestic and international pressure, and what lessons can be learned from the positive and negative characteristics of such a system is an interesting question to explore and examine. The struggling of Thai higher education has varied from the period of colonialism, absolute monarchy, military dictatorship and democracy. Thailand was one of the three key Asian nations (Japan, China and Thailand) that was never colonized by the Western powers, and had independence in choosing an education model from the West without direct foreign domination (Altbach, 1989, pp. 9-12). Experts from France, Britain, Germany and later from the U.S. advised Thai authorities and worked in academic institutions at the beginning of higher education in Thailand.

Traditionally, universities in Thailand have followed two models: the US and the UK models (Prangpatanpon, 1996). Indeed, academically and administratively, the universities are based upon a system of faculties in which each faculty is under a separate dean, as in the United Kingdom. On the other hand, teaching and course organization are similar to the American system, with a credit course system being used. Nevertheless, the relationship between students and professors follows the traditional Thai school approach rather than any foreign model. Public university staff is state civil servants. Members of the University Council are, basically, comprised of a distinguished figure (politician or scholar) as president, the rector, deans, departmental heads, senior government officials and academic heads from other institutions (Watson, 1989, pp. 87-88).

Thai higher education has experimented with various models from the West since the establishment of the first medical school in 1889 that marked the beginning of higher education in Thailand. From the beginning until the World War II, Thai higher education operated a closed approach modeled very closely on European patterns of higher education. However, in the post-War period, it moved towards a North American model in design, administration, structures and course modules offered but with a West European approach to access (Watson, 1989, p. 70).

The recent reform of financing arrangements by establishing a new financing system for students in 2005, Income-Contingent Loan (ICL), proved that the government embraces many educational models from foreign countries. The ICL scheme was adapted from the Australian model with the notion that when students have power of purse through the loan to choose their institutions, it will stimulate competition among public and private higher education institutions to attract these potential students. Ultimately, it will encourage these institutions to improve educational quality and offer a greater variety of subjects (cf. Office of Educational Council, 2006, p. 144). However, recently, this scheme has been merged with the original loan fund, Education Loan Fund (ELF)<sup>17</sup>.

Nevertheless, the beginning of Thai higher education era and its ongoing development should be credited to the visionary leadership of King Chulalongkorn and King Vajiravudh. King Chulalongkorn (1868-1910), the fifth king of the Chakri Dynasty, recognized that “human resource development is critical to a nation’s economic success and prosperity; that education needed to have an important moral dimension...Central to his major reforms was the creation in Siam of a modern educational system with the capability to serve the entire Kingdom” (Fry, 2002, pp. 5-6).

The beginning of higher education in Thailand can be traced back to the reign of King Chulalongkorn. The founding of the country’s first medical school, Siriraj Hospital, in 1889 marked the beginning of higher education in Thailand. However, Chulalongkorn University has been recognized as Thailand’s first university, established in 1917. It was the first multi-disciplinary university in Thailand that incorporated the existing schools of medicine and engineering with the newly created faculties of Arts and Sciences, Law and Political Sciences (CHE, 2007a, pp. 10-11).

After the establishment of the first university in Thailand, the following universities were established, University of Moral and Political Science (now Thammasat University) in 1933, Medical Sciences University (now Mahidol University) in 1942, Kasetsart University in 1943, and Sillapakorn University in 1943. These universities<sup>18</sup> were under the auspices of different Ministries in that time.

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<sup>17</sup> The stated purpose of Education Loan Fund (ELF), established in 1996, was to increase higher education access solely for students of disadvantaged economic status. Three ministries are involved in the provision of the ELF: the Ministries of Education and of Finance and the Commission on Higher Education. The ELF is managed by the ELF committee. Krung Thai Bank is responsible for loan execution (Savatsomboon, 2004).

<sup>18</sup> In those days, the task of Chulalongkorn University (an amalgamation of the Civil Service College, the Engineering School, the Royal Medical School and a newly created Faculty of Arts and Science and Political Science) was mainly to train civil servants to serve the numerous branches of government of the country (very like the *grandes*

In 1959, universities were organized under a new governance structure from under the different authorities of different Ministers into a centralized planning of Office of the Prime Minister (OPM). In 1972, Ministry of University Affairs of the State under the auspices of OPM was another further development of the relationship between the government and universities. The universities were now under the control of a separate governmental agency not belonging to the Ministry of Education. Such governmental agency had an equivalent status with other Ministries in 1977 with the new name of Ministry of University Affairs (MUA) with separate mission from the Ministry of Education (MOE) dealing with basic education. However, when the administration of the Ministry of Education Regulatory Act was promulgated in July 7, 2003, the MUA was amalgamated with the MOE. This indicates that higher education policies and universities are now under the control of Commission on Higher Education (CHE) in which CHE is under the direct command of the MOE (Watson, 1989, pp. 70-74; CHE, 2007b, pp. 12-14).

## **4.2 Multi functions of universities within a pluralist society in Thailand**

Thai society has a strong base on pluralist philosophy and compromise. Any major changes in higher education policy require a consensus agreement from diverse actors directly or indirectly involved with such changes. To compromise and balance different interests among stakeholders is relatively difficult for the Thai government<sup>19</sup> when the institutional-autonomy policy was introduced.

The function of the university in Thailand has been diversified into many areas. This has led to a dichotomy between the role of the university in the technological upgrading of the country and the role of the university in the socio-cultural development and integration. The government is in the situation that they have to balance the function of the university between economic and socio-cultural development.

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*ecoles* in France). Thammasart University had strong links with the Ministry of Public Justice and the Department of Public Administration. Although Thammasart University remains a university essentially concerned with law, political science and social administration, it also has strengths in commerce, accountancy, economics and journalism, the latter faculties having been greatly influenced by, and modeled on similar faculties in the U.S.. Mahidol University was under the auspices of the Ministry of Public Health that once had been the medical faculty of Chulalongkorn University. Kasetsart University was the merger of two specialist institutes, a College of Forestry and a College of Agriculture that was associated with the Ministry of Agriculture. And Sillapakorn University was an upgrading from the Department of Fine Arts organized a School in Bangkok to train Thai youths in painting and sculpture. (Watson, 1989, pp. 70-74).

<sup>19</sup> The autonomy policy will be discussed in more detail in section 4.5.

**Table 1 Number of higher education institutions in Thailand**

<b>Number of Higher Education Institutions in Thailand</b>	<b>Total</b>		<b>165 (2008)</b>
	<b>Public HEIs</b>	<b>Limited Admission Univ.</b>	<b>23</b>
		<b>Open Univ.</b>	<b>2 (2008)</b>
		<b>Autonomous Univ.</b>	<b>7 autonomous universities + 2 autonomous Buddhist Universities (2008)</b>
		<b>Other Public Univ.</b>	<b>44</b>
		<b>Community colleges</b>	<b>19 (2008)</b>
	<b>Private HEIs</b>	<b>University</b>	<b>34 (2008)</b>
		<b>College</b>	<b>29 (2008)</b>
		<b>Institute</b>	<b>5 (2008)</b>

Source: Commission on Higher Education, 2008; and Bovornsiri, 2006

Public universities in Thailand are heterogeneous and consist of limited admission public universities, open admission universities, autonomous universities, other public universities and community colleges<sup>20</sup> (see Table 1). The stratified structure of Thai higher education thus poses a challenge for the government to allocate financial resources and priorities. Some types of Thai public universities still essentially need strong financial support from the government since its functions in Thai society are not lucrative. Indeed, one thing is certain that the institutional-autonomy policy contributes to resistance from those universities having low capacity to generate their own revenues. To eliminate the ambivalent attitudes of the universities towards the institutional-autonomy policy, clear and defined resource allocation is required, especially for those universities that are not be able to function properly without certain financial support from

<sup>20</sup> The details of the functions of these universities in Thai higher education can be found in the work of Bovornsiri (2006).

the government. The following five categories of multi function of Thai universities are based on the chronological order of Thai higher education history.

1) The first function from the early era of Thai higher education was to train civil servants for governmental agencies, and was utilized as a political apparatus by King Chulalongkorn to avoid colonialism from the West. The context-setting factor of Thai higher education is complicated. The role of Thai higher education is not static but in a state of flux between religious, political, social and economical dimensions. At the beginning, Thai education was centralized in Buddhist monasteries where students could study both Thai and Pali, the language of Theravada Buddhism (Fry, 2002, p. 4). Later education, including higher education, was under a vital reform by King Chulalongkorn when the Department of Education established to oversee the Kingdom's education and religious affairs, following with the first Education Plan in 1898 (MOE).

Education reform had been utilized as one of the political instrument of *Siam* (*Siam* became *Thailand* in the year 1939) in order to avoid being colonized by the Western powers, from the justification of invasion from colonizers by using the notion of an uncivilized and barbarian state.<sup>21</sup> King Chulalongkorn had also laid the foundation of higher education by establishing schools for higher learning such as Suankularb School, Army Cadet School, the Cartographic School, the School of Princes and the School of for Dhamma Studies. Subsequently, King Vajiravudh (Rama VI) saw that the original intention of his father, King Chulalongkorn, was to establish an institution of higher learning of the first Thai university. The first university in Siam was founded on March 26, 1917. It was named Chulalongkorn University in honor of King Chulalongkorn (Chulalongkorn University website). Indeed, in the first phase of Thai higher education, in addition to being the political apparatus for resisting the tide of colonialism, the first function of Thai universities was to train civil servants for governmental agencies.

2) The second function of Thai universities was to be used as an absorber of massification. The number of students accessing higher education rapidly increased from 18,000 to 100,000 over 1961-72, while growing numbers also went overseas, especially to the U.S. (Baker &

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<sup>21</sup> King Chulalongkorn had traveled to see progress at first hand in the colonial territories of Singapore, Java, Malaya, Burma, and India for selecting what may be safe models for the future prosperity of this country (Baker & Phongpaichit, 2005, p. 52). He had several European constitutions translated into Thai and was most impressed by the French Code Napoleon. In 1897, King Chulalongkorn traveled to Europe. In part, this was shrewd diplomacy following the Paknam Incident of 1893. The French colonial minister immediately understood the significance: "it will give the impression that the kingdom of Siam, whose sovereign has been received in the manner due to a European head of state, is a civilized country which should be treated like a European power" (p. 69).

Phongpaichit, 2005, p.185). The number of students reached almost 800,000 in 1984 (Suwanwela, 2005). The number of enrollments in higher education grew eight times between 1972 and 1984.

**Table 2 Enrollments at Ramkhamhaeng University between 1971 and 1980**

	<b>1971</b>	<b>1975</b>	<b>1977</b>	<b>1979</b>	<b>1980</b>
<b>Estimated</b>	<b>18,500</b>	<b>48,000</b>	<b>70,000</b>	<b>90,000</b>	<b>-</b>
<b>Actual</b>	<b>15,000</b>	<b>52,000</b>	<b>117,000</b>	<b>312,000</b>	<b>440,000</b>

Source: Watson, 1989, p. 82

The establishment of two open universities, Ramkhamhaeng University in 1971 and Sukhothai Thammathirat Open University in 1978, helped to absorb the growing demand for higher education (these two universities still have the role in absorbing massification these days). The demand area for higher education extended beyond the old elite. The most important and innovative change in Thai higher education was undoubtedly the Ramchamhaeng University Act of 1971. The actual outcome of the intention to absorb the massification was remarkably successful. Table 2 indicates the unexpected gap between estimated enrollments and actual enrollments of Ramkhamhaeng University during 1971-80, especially between 1979 and 1980.

The Open University in the UK successfully launched in 1969 had been the model of open admission universities in Thailand, including American and Canadian models presented in the universities development. In the Thai context, it is evident that two strands have emerged based on the Open University concept. The first, Ramkhamhaeng, was concerned more with open access for younger students, which never worked successfully in Britain using CCTV and some distance teaching. The objective was to resolve the growing problem of increasing number of students by making higher education opportunities available cheaply. Sukhothai Thammathirat Open University, on the other hand, is much closer to the Open University both in theory and in practice. Apart from the models of the British Open University and the earlier Ramkhamhaeng developments, the Thai authorities could also benefit from other distance teaching experiments that had taken place in Southeast Asia during the 1970s (Watson, 1989, pp. 81-85). Having experimented on open admission university models in a short span of time, Thai higher education was able to adapt to Western models and transform them to overcome the problem of massification successfully not compromising quality of teaching and graduates.

3) The third role of Thai universities was to transform Thailand into a democratic society. The relationship between the development of Thai political system and higher education makes Thailand a fascinating case study (Watson, 1991, p. 571). By 1957, the universities were controlled entirely by the military. Public universities were led by high ranking serving or ex-military people (Kirtikara, 2002, p. 3). From the early 1960s, student publications began to articulate dissatisfaction. Student demonstrations about the war, corruption, and other issues began tentatively in 1968. In 1972, they became better organized and more forceful. An ideological swirl of leftist ideas, democratic liberalism, Buddhist notions of justice, and nationalist opposition to the exploitation by both the U.S. and Japan had gathered student activists from different financial backgrounds to fight against the military (Baker & Phongpaichit, 2005, pp. 185-188).

University students uprising against the dictatorship of the military government reached its peak in 'the October 14, 1973 Incident'; half a million people joined a Bangkok demonstration to demand a constitution, and parallel gatherings formed in major provincial towns. The dispersal of the demonstration on the morning of 14 October 1973 deteriorated into violence. The shedding of young blood on Bangkok streets undermined any remaining authority of the junta, and allowed the king and other military factions to demand the 'three tyrants' (Thanom, Praphat, and Narong) go into exile. The final collapse of military rule catapulted students into a historic role, and elevated the king as a supra-constitutional force arbitrating the conflicts of a deeply divided nation (Baker & Phongpaichit, 2005, p. 188). Indeed, Thai universities in those days played a significant role in bringing democracy to Thai society as mentioned by Watson (1991, p. 571); Fry (2002, p. 9); and Baker and Phongpaichit (2005, p. 188).

4) The fourth role of the university has taken place when Thailand needed education reform in order to adapt to the challenges of globalization and internationalization. Under the pressure of globalization and free trade in higher education, the government appears to have a passive role in bringing Thai higher education to join the globalized academic community. Although Thailand is in a strategic position to assist neighboring countries in their development especially of higher education (Suwanwela, 2005), Thai universities appear to have to deal with domestic problems rather than becoming very active in internationalization. These concerns of external or international pressure have currently emphasized that higher education should have priority and dynamically adapt to new external conditions (CHE, 2008a, p. 4).

For example, there are some foreign countries that have expressed interest in investing in Thai higher education sector such as Australia, Japan and the United States. In cross-border

higher education, “Thailand is in the position both of the receiving and the giving country. Thailand has committed 10 sectors including education in GATS multilateral schedule. In addition, Thailand is a part of the ASEAN Free Trade Agreement (AFTA), and has signed bilateral free trade agreement (FTA) with Australia, Bahrain, China, India, and New Zealand. It is negotiating similar agreement with Japan, Mexico, South Korea, Switzerland and the United States” (Suwanwela, 2005).

5) The fifth role of Thai universities is their socio-cultural function in the society. For example, a new philosophy of self-sufficient economy was included in all current educational policies, particularly the Second 15-Year Long Range Plan on Higher Education of Thailand (2008-2022) (CHE, 2008a). Moreover, Thai higher education should have a significant role in developing not only economic demand but also socio-cultural growth. The new function of the university in socio-cultural integration is to remedy the violence in the deep-south of Thailand, and build bridges with the ASEAN countries (Kiritikorn, former Secretary-General of CHE, 2007).

“Education is a source of understanding of diverse religions and ethnics within Thai pluralist society... if we understand Muslims in the South of Thailand, it helps us to understand other Muslims in ASEAN” (Kiritikorn, 2007). “Countries in the region are committed to building the ASEAN Community by 2015, whereby nearly half of the population are Muslim and use Bahasa (the dialect of Malay used as the national language of the Republic of Indonesia or of Malaysia). Thailand could position herself as a lead player in ASEAN higher education, learning from the experiences of the European Union, for example, in mutual recognition and standardization of education and mobility of students” (CHE, 2008b, p. 3). Inward and outward mobility for students and youth should be promoted. Building up and access to quality education at all levels would ensure good and meaningful employment within and outside southern Thailand, and opportunities in ASEAN and the world of Muslim communities.<sup>22</sup>

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<sup>22</sup> One of the impacts of globalization on Thai higher education is the establishment of ASEAN 40 years ago. This is because under the rapid change of socio-economic environment, an international organization has become a tool for the government in the establishment of collective power of bargaining. The role of university can assist the cultural integration among ASEAN members. The European Union model of connecting cultures through education is being observed by the members. This is still a process in the beginning but Thai government has already prepared for setting up Islamic universities in Southern Thailand not only to help remedy the violence in the deep South but also as an educational bridge to integrate ASEAN communities together. In 2006, the number of population of ASEAN members (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) was approximately 567 millions, 8.57 % of the total world population (ASEAN, 2006, p. 4). Muslims comprise 45% of the total ASEAN population. Thus, from the percentage of religious practitioners, Islamic universities can be one of the key roles of cultural integration.

### **4.3 Current administration of higher education in Thailand**

Carried out in accordance with the National Education Act B.E. 2542 (1999) and Bureaucratic Reform Bill 2002, a major reform of educational administration and management was to integrate the 3 agencies, the Ministry of Education (MOE), the Ministry of University Affairs (MUA) and the Office of the National Education Commission (OEC), into a single Ministry of Education (OEC, 2006, p. 4). The new Ministry of Education is empowered to promote and oversee all levels and types of education under the administration of the state.

Article 10 of the Ministry of Education Regulatory Act 2003 stipulates that the central administrative bodies of the new Ministry of Education consist of the following (CHE, 2007a, p. 16): 1) Office of the Minister; 2) Office of the Permanent Secretary; 3) Office of the Education Council; 4) Office of the Basic Education Commission; 5) Commission on Higher Education; 6) Office of the Vocational Education Commission. Each of the agencies except 1) has a legal status as juristic person. Though administratively, each is equivalent to a governmental department level, its Chief Executive Officers (CEO) report directly to the Ministry of Education.

Commission on Higher Education (CHE) in Thailand has the authority to manage and to promote higher education on the basis of academic freedom and academic excellence (CHE, 2007a, p. 19). Its mandates are the following: 1) to formulate policy recommendations, higher education standards, higher education development plans and handle international cooperation in higher education; 2) to devise criteria and guidelines for resource allocation, establishment of higher education institutions and community colleges and provide financial support; 3) to coordinate and promote human resources development and student capabilities, including those of handicapped, disadvantaged, and talented students in higher education institutions, and to coordinate and promote research activities for the generation of new body of knowledge to support the national development; 4) to provide recommendations on the establishment, dissolution, amalgamation, upgrading and closing down of higher education institutions and community colleges; 5) to monitor, inspect, and evaluate outcomes of higher education management as assigned by the CHE Board, and compile data and information on higher education; 6) to serve as the Secretariat to the CHE Board; 7) to perform other functions as prescribed by and to carry out other tasks as assigned by MOE or the Council of Ministers.

The CHE Board has the authority to formulate higher education development policies and plans corresponding to the National Economic and Social Development Plan and the National Education Plan (CHE, 2007a, p. 18). It has to set standards while providing resources as well as

carry out follow-up activities, inspection and evaluation of higher education management on the basis of academic freedom and excellence of each individual degree-granting institution. Moreover, the Board has to consider issuing regulations, criteria, and official orders deemed necessary.

The CHE Board is also empowered to provide recommendations and consultants to the Minister of Education or the Council of Ministers. In addition, the Board has been given the power to propose block grants for degree granting institutions either public or autonomous universities. Members of the Board come from relevant agencies or are representatives of the private sector, local administration, professional associations and experts. The number of experts, nevertheless, must be no less than those from the other sectors.

Administrative structures of public universities in Thailand have University Councils (UC) as the governing board. Each public university has its own Act empowering the UC to function as the governing body (CHE, 2007a, p. 14). The President, as chief administrator, operates the university according to the policy laid down by the UC which comprises Chairperson, President, Deans, Directors of Institutes of the university and other qualified persons not salaried by the university. The Dean's Council and the Faculty Senate are two advisory bodies which may also take part in governing the university. Likewise many Western academic communities, public universities in Thailand are formally and ideally protected by the universal notion of academic freedom (CHE, 2008b, p. 1). The so-called academic freedom and knowledge specialties have been the fundamental insurers of public universities from being threatened by the government.

#### **4.4 Types of education standards for higher education**

There are currently three types of education standards for Thai higher education: national education standards, standards for internal quality assurance, and standards for external quality assurance. Each standard is comprised of performance indicators. The three types of education standards are categorized as follows (OEC, 2006, p. 12-14):

##### *A) National Education Standards*

As specified in the 1999 National Education Act, the Office of the Education Council is responsible for proposing national education standards. Consequently, sets of standards were formulated by the Office in cooperation with the offices responsible for basic, vocational, and

higher education as well as the Office for National education Standards and Quality Assessment (ONESQA).

With approval from the Council of Ministers on October 26, 2004, agencies providing education at all levels are expected to abide by the national education standards, which are comprised of these categories: 1) desirable characteristics of the Thai people, as both citizens of the country and members of the world community consisting of 5 indicators; 2) guidelines for educational provision consisting of 3 indicators; 3) guidelines for creating a learning society/knowledge society consisting of 3 indicators. The national education standards also serve as the basis for setting assessment standards of internal and external quality assurance mechanisms.

#### *B) Internal Quality Assurance*

Educational institutions follow guidelines for internal quality assurance standards developed by their supervising agencies. The baseline for Thailand's quality assurance framework lies in the establishment of standard criteria and requirement set forth by the MUA [CHE] for all levels of degree programs offered in the country. All degree programs offered in public and private higher education institutions, including transnational ones, will have to meet these standard criteria before approval and commencement. Over the years, the MUA had transferred such approval authority to public universities. Academic boards and governing councils have the responsibilities for the quality of educational provision including control of academic standards. Some universities may invite external experts for reviewing aspects of internal activity and curriculum development (Kanjapanyakom, 2004, p. 3).

There are nine aspects relating to internal quality assurance of higher education institutions (Bovornsiri, 2006, p. 211): 1) philosophy, mission, objectives and implementation plan; 2) teaching-learning provision; 3) student development activities; 4) research; 5) academic services to the community; 6) preservation of arts and culture; 7) administration and management; 8) finance and budgeting; 9) higher education quality assurance systems and mechanisms.

The nine aspects are guidelines for the university; there is no specific directive instruction as how to establish such a system within the context of each institution. The idea is for each and every institution to develop their own system which is most suitable to institutional environment and uniqueness (Kanjapanyakom, 2004, p. 4). Implementation process, audit procedures and review cycles are also depending upon the policy makers in each institution.

### *C) External Quality Assessment*

ONESQA was established as a public organization in November 2000. Its mission is to oversee external quality assessment, conducts assessments of basic education and higher education institutions by following standards relating to educational achievement (output/outcome), input/processes, and efficiency in administration and leadership.

At the higher education level, ONESQA requires each institute to present results against indicators and to review the institutional performance in 7 standards as follows (ONESQA, 2007): 1) quality of graduates (6+2 indicators); 2) research and innovation (5+2 indicators); 3) academic services (4+3 indicators); 4) preservation of arts and culture (2+2 indicators); 5) institutional and personnel development (11 indicators); 6) curriculum, teaching and learning (9 indicators); 7) internal quality assurance (2 indicators).

External quality assessment of all educational institutions is conducted at least once every five years, with outcomes submitted to relevant governmental agencies, and made available to the general public. ONESQA employs external assessors from private, professional or academic organizations, and trains them as external assessors with certification based upon their competency for accreditation and registration. Once certified, their performance is evaluated periodically (OEC, 2006, p. 15).

External quality assessment is conducted through the inspection of annual reports and reports from internal quality assurance procedures. External assessors review documents and data and make on-site visits to the institutions in accordance with the assessment process. Successful evaluation leads to certification of quality and standards (OEC, 2006, p. 15).

## **4.5 Institutional-autonomy policy in Thai higher education**

The concept of university autonomy was introduced in Thai higher education over 3 decades ago. But it was formally stipulated in the First 15-Year Long Range Plan on Higher Education of Thailand (1990-2004), addressing that future public universities to be established must be autonomous universities from the beginning, while existing public universities should also be incorporated (Kirtikara, 2002, p. 4; OEC, 2006, p. 74).

With this foundation, at the beginning, there were 3 new public universities established in the 1990s which became autonomous universities. In 1991, there was an attempt from the government to incorporate 15 existing public universities into the autonomous-university policy

but it was not successful (Kirtikara, 2002, p. 4). However, the first one was King Mongkut's University of Technology Thonburi (KMUTT) that had decided to pursue the incorporation path and became an autonomous university in 1998.

The concept of institutional-autonomy policy used by CHE in English publications is translated into *autonomous universities*. The basic explanation of autonomous universities by the CHE (2007, p. 14) is:

An innovative way of university administration has been introduced to promote flexibility of university operation. Such universities have their own administrative structure and budgeting system for self-governance and full autonomy, allowing decision making on administrative and management matters of the university to be handled by the university itself. Currently, Suranaree University of Technology, Walailak University and King Mongkut's University of Technology Thonburi; are the ones operating by this system. Efforts are being made to encourage existing public universities to move out of the bureaucratic system.

Another definition of the autonomous university given by Kirtikara (2004, p. 38), the President of KMUTT, is as follows:

University autonomy means that the State allows autonomous universities to manage their own 3 major internal affairs, namely, academic matters (academic programs, university structures), personnel matters (personnel system, recruitment, remuneration, benefits), and finance and budgets (budget management, procurement system). The State can direct, supervise, audit and evaluate autonomous universities. Autonomous universities have to follow government policy and the Minister in charge. The State Auditor audits accounts and assets of autonomous universities. In the case of KMUTT, 2 members of the University Council are appointed by the Minister of MUA [now CHE].

However, with the political reason, the term of autonomous universities being used by CHE is literally different from the one used in Thai. The term of university-autonomy policy (autonomous universities) in Thai context is *state-supervised universities*. But, in the general sense, the term of autonomous university symbolizes a transforming process from public universities into quasi-private universities. The use of different terms is probably to avoid the resistance of institutional-autonomy transition. Although there has been an attempt to push the autonomy policy forward by avoiding using any sensitive terms that can provoke resistance, there has been fierce resistance of students, lecturers and some administrative staff to the policy.

So far there have been only 7 autonomous universities out of 97 public higher education institutions (76 public universities, 19 community colleges and 2 Buddhist universities). In 2007, the interim government tried to push ahead the draft bills of autonomous universities (individual University Acts) through the parliament but some of them were withdrawn due to the fierce resistance from students. Therefore, the government demanded University Councils to communicate and make a consensus agreement among stakeholders within universities and students before submitting the draft bills to the parliament. This study summarizes the underlying rationale of the autonomous-university policy introduced in Thai higher education as follows.

#### **4.5.1 To increase flexibility and innovation of the university**

Strictly speaking, the first phase of higher education development in Thailand was not characterized as universities in the sense of Western World where search for new knowledge through research has always been part of the university (Kirtikara, 2001, p. 4).

After the 1932 coup d'état leading to the constitutional Monarchy and until the period up to the Second World War, university graduates were employed to man subsequent public agencies and took part in physical infrastructure developments, replacing European experts brought in earlier on. As the country embarked on the modern development four decades ago after the end of the Second World War, the bureaucracy kept expanding. So did the public universities and the demand of more professionals, never research work...The Thai industries have been heavily protected such that no meaningful technology transfer and adaptation has taken place. Research and development in the private sector has been insignificant. Hence, no expectations on universities doing research and development work.

Indeed, the changing contexts of what counts as knowledge from the first stage of development of Thai higher education under the notion of producing university graduates for governmental agencies until the era of globalization under the notion of the role of the university in the technological upgrading has been another compelling force behind the institutional-autonomy policy (cf. Gibbons et al., 1994; Liefner & Schiller, 2008). One aim of the policy is to upgrade national research systems in order to retain international competitiveness.

Thai Public universities under bureaucracy have been criticized for inflexibility. With the notion of bureaucracy as the source of cumbersome procedure and red tape, public universities should have more autonomy to determine their affairs. Kirtikara (2004, p. 4) indicates that bureaucratic regulations made policy implementations clumsy and messy. Disbursements of

budgets are not conducive to the nature of university function that requires a certain degree of flexibility and innovations.

The centralized line-item [and incremental budget] system being used currently is consistently criticized for being overly rigid and to lack in flexibility resulting in delays and inefficiencies (Fry, Wisalaporn, Lertpaithoon, Sinprasert, Peerapornratana, & Larpkesorn, 1999, p. 6). Moreover, the current system of educational administration does not provide *differential rewards* (Fry et al., 1999, p. 7) in any adequate way to reward teaching performance, extraordinary service in remote areas, or fields in which it is difficult to recruit outstanding individuals. Many are treated the same in the system, regardless of actual performance or nature of contribution to the quality of education.

#### **4.5.2 The ongoing trend of deteriorating quality in Thai higher education**

Contemporary Thai higher education is facing an ongoing and chronic problem of low quality of graduates. A major proportion of university graduates are not sufficiently competent in their fields of study (Weesakul, Charsombut, Ratchapaetayakom, & Chinnamethipitak, 2004, p. 16). There is a surplus of graduates in the field of humanities and social sciences whereas there is a lack of qualified graduates in the technological and professional fields. Moreover, Thai universities have been ranked below renowned universities of the region and the world, especially below many countries in East Asia (CHE, 2008b).

Due to rapid industrialization and overseas investments promotion since the 1980s, the private sector has replaced the public sector as the major employer of university graduates. The private sector has complained about the mismatch of graduate profiles and market requirements (Kirtikara, 2001, p. 4). However, the private sector had to employ these mismatched graduates during the economic boom as there was no other alternative supply of higher education manpower. The unqualified capacity of graduates still persists. It appears that the problem would have never been solved if there had been no reform in the structure and management of Thai higher education.

*High quality* is stated firmly in the goal of the Framework of the Second 15-Year Long Range Plan on Higher Education of Thailand, covering 2008-2022 (CHE, 2008b). Currently, public universities exhibit many weaknesses such as proliferation of degree granting institutions,

over 140 under supervision of the CHE in 2007, low educational quality, limited staff and resources.

### 4.5.3 Limitation of national resources for higher education

The government has a hope of converting heavily financial burden of the government on higher education into the hands of the universities. The unsatisfactory performance of Thai higher education in the past and the pressure on national competitiveness has led to a series of funding reforms and changes in higher education institutions (Schiller & Liefner, 2007, p. 549). It is believed that the university is more responsive and active than the government in coping with the funding problems.

**Table 3 Government and public expenditures on education**

<b>Year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Educational Budget (E.B.) (million Euro)</b>	<b>4,550</b>	<b>4,805</b>	<b>5,127</b>	<b>5,366</b>	<b>6,020</b>
<b>% of E.B./National Budget</b>	<b>21.8</b>	<b>23.5</b>	<b>24.4</b>	<b>21.9</b>	<b>21.7</b>
<b>% of E.B./GDP</b>	<b>4.0</b>	<b>4.1</b>	<b>4.0</b>	<b>3.7</b>	<b>3.7</b>

Source: Ministry of Education, 2006

1 Euro = 49 Baht

The government still subsidizes education sector heavily as the figures show in Table 3. The education budget accounted for approximately 20% of the national budget. The amount of money spent on education increased from 4,550 million euros in 2002 to 6,020 million euros in 2006. This is because, first, it is a result of increased national budget every year. The increasing budget on education, therefore, corresponds with a significant growing of Thai national budget

during the last few years. Second, the government has to provide 9-year compulsory education and 12-year free basic education mandated by the new Constitution and the 1999 National Education Act, and quantitative expansion of primary schooling (Chiangkul, 2006, p. 14; Fry, 1999, p. 1; Kirtikara, 2001, p. 6).

**Table 4 Educational budget expenditures by function in percentage form of educational budget expenditures**

<b>Year</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Higher education</b>	17.8	17.7	16.8	17.1	15.6	14.8	14.3	14.2	13.3
<b>Basic education</b>	74.2	70.8	69.2	64.9	67.1	68.1	68.2	69.4	72.6
<b>Budget for management</b>	3.6	7.0	10.2	10.9	13.1	12.7	13.0	12.1	11.7
<b>Freestyle education</b>	1.9	1.8	1.5	1.4	1.3	1.4	1.5	1.4	1.3
<b>Other types of education</b>	2.5	2.7	2.3	2.7	2.9	3.0	3.0	2.9	2.1
<b>Total budget of education</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Office of the Education Council (from Chiangkul, 2006, p. 18)

The government has budget constraints despite the accelerating number of students having access to higher education (Table 5). The percentage of the educational budget expenditures allocated by types of education indicates a significant decrease of allocated budget in higher education from the government from 17.8 % in 1997 to 13.33 % in 2005 (Table 4). This is because the government has to finance 12-year free basic education resulting from the 1999 Education Act, the priority of the government expenditure on education has inevitably been given to basic education. In addition to the potential decrease in budget allocation for higher education, it is projected that the number of secondary school graduates and first year university intake will increase by about 2.5 to 3 times that of present in 15 years time (Kirtikara, 2001, p. 2). This poses a formidable challenge for the government on how to cope with these conditions with limited resources and yet maintain the quality of education.

Ever since the establishment of the first Thai university, Chulalongkorn, in 1917, the costs of higher education did not pose a threat to the government to manage since the main purpose of the university was to train the ruling elite. The costs of the higher education were highly subsidized by the government because all these graduates would end up working for the government.

Since the highly subsidized system of higher education in Thailand still prevails, the government appears to be facing a heavy financial burden as a result of continuous massification. The high level of the governmental subsidy to higher education would be acceptable if the government would be wealthy enough to cover the increasing costs, but this is not the case in Thailand. For most of Thai modern history, the fiscal position of the government has always been in deficit, meaning it could not raise enough revenues to pay for its public expenditures (Krongkaew, 2004, p. 3). There are two reasons that the government still heavily supports universities. One was the low-cost nature of the earlier subjects taught at universities (law, economics, public administration, political science, arts and history); and the other was the low salary structure of university lecturers (*ibid.*, p. 1).

**Table 5 The comparison between number of students, higher education budget and budget per student in higher education system**

<b>Year</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2002</b>	<b>2002</b>	<b>2003</b>
<b>Higher education budget (million Euro)</b>	<b>773</b>	<b>694</b>	<b>725</b>	<b>704</b>	<b>671</b>	<b>651</b>	<b>680</b>
<b>Number of students</b>	<b>1,477,747</b>	<b>1,587,804</b>	<b>1,680,896</b>	<b>1,779,914</b>	<b>1,869,433</b>	<b>1,947,851</b>	<b>1,928,608</b>
<b>Budget per a student (Euro)</b>	<b>523</b>	<b>437</b>	<b>432</b>	<b>395</b>	<b>359</b>	<b>334</b>	<b>353</b>

Source: Office of the Educational Council (from Chiangkul, 2006, p. 17),

1 Euro = 49 Baht

**Table 6 Proportion of students in formal system of public to private institutions in higher education between 2001 and 2005**

<b>(Year) 2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>79:21</b>	<b>79:21</b>	<b>79:21</b>	<b>82:18</b>	<b>83:17</b>

Source: Ministry of Education, 2006

Thai higher education system is similar to the Western systems in terms of transition from an elite system to massification. The burden of governmental funding appears to be a chronic problem. Thai higher education institutions have been traditionally dominated by the public sector since the end of the World War II (Kirtikara, 2001, p. 2). The number of students increased substantially every year (from 1,477,747 in 1997 to 1,928,608 in 2003) (Table 5). In addition, the proportion of student enrollment to public institutions (mainly public universities) is likely to increase (from 79:21 in 2003 to 83:17 in 2005) (Table 6), while the potential funding for universities (government funds approximately account for 75% of a public university budget, Weesakul et al. 2004, p. 17) is decreasing significantly (from 773 million euros in 1997 to 680 million euros in 2003) (Table 5).

Moreover, the governmental budget per student is significantly decreasing (from 523 euros per head in 1997 to 353 euros per head in 2003) (Table 5). Due to the stagnation of government expenditure for higher education, the government is now facing a new challenge of how to manage the financial burden of the increasing total costs from the massification. The ongoing trend of the decreasing budget per head has also posed a potential threat to the quality of Thai higher education in the long term.

## **5 EMPIRICAL INSIGHTS: APPLICATIONS OF AGENCY THEORY IN HIGHER EDUCATION SYSTEM AND INSTITUTIONAL-AUTONOMY POLICY IN THAILAND**

### **5.1 Principal (s)**

The analytical framework of this study defines the agency relationship between the government and public universities as the principal and the agent respectively. The real responsibility of the government is intertwined between three main principals: the parliament that approves educational budget to Ministry of Education (MOE), the MOE having higher hierarchical status than Commission on Higher Education (CHE), and CHE directed by Commission on Higher Education Board.

Nevertheless, to make the analytical framework less complicated, the term *government* will be utilized throughout the analysis of this study. The term government is defined as a unitary principal. But the possession of superior information, responsibility and higher education expertise makes CHE become the major principal in the scope of this study when it refers to the government.

### **5.2 Agent (s)**

In this study, the term the agent refers to *public universities (the university)* as a unitary agent comprised of different interest groups such as University Council (UC), academics and administrators. In some analytical contexts, UC, administrative and academic staff are also referred to separately as multiple or collective agents. In the case of collective agents, it means that different self-interested groups within the university form a coalition in order to defend their interests as a unitary unit. In the case of multiple agents, each self-interested group defends their individual-group interests within the university.

## 5.3 Contractual relationships: mode of control and motivation

### 5.3.1 Goals or given tasks

Thai universities have multi-functional roles in Thai society. Given tasks for the university are normally a response of the government to handle the changing socio-economic environments affecting Thai society as well as Thai higher education system.

Since this study draws attention to the institutional-autonomy policy, the scope of given tasks can be found in the government educational policy where the institutional-autonomy policy is stated. Indeed, the given tasks that are related to the autonomy policy can be traced back from the beginning of *the First 15-Year Long Range Plan on Higher Education in Thailand (1990-2004)*<sup>23</sup> where the institutional-autonomy policy was formally stated. The First Long Range Plan addressed 4 major issues (4 major given tasks) for the university, namely, equity, efficiency, excellence and internationalization (Kirtikara, 2004, p. 11).

There were several tasks of the First Plan that were not achieved. For example, the expected ratio between graduates of science and technology to graduates of social science and humanities was 50:50. But the actual outcome at the end of the plan was merely 25:75. Another example was the expected Gross expenditure for R&D as 1.5 % of GDP had to be achieved under the First Plan. But the actual outcome at the end was only 0.25 % of GDP (CHE, 2008a, p. 2).

The MOE under the supervision of CHE has just finalized the Framework of the Second 15-Year Long Range Plan on Higher Education in Thailand (2008-2022). Under the Second Long Range Plan, the key tasks stated in the plan are that universities have to raise the quality of graduates capable of life long work and adjustment. Increasing the global and international competitiveness, knowledge and innovation are also considered to be key developments for Thai higher education to achieve. Universities have to support the sustainable development of local activities. Such a quality system will be achieved through mechanisms and measures of good governance, financing, quality assurance, and higher education networks based upon academic freedom, diversity and solidarity of the system (CHE, 2008a; CHE, 2008b).

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<sup>23</sup> The concept of public university being autonomous, neither a part of the bureaucracy nor under the Civil Service, was not initially enunciated by the Long Range Plan. It was a reiteration of the concept propounded around 1963-1967 by the leading Thai university figures such as Dr. Puay Ungphakorn, Professor Kasem Suwannakul, Professor Sippannanda Ketduthat, Dr. Sawas Kakulthai and Dr. Kamhaeng Palangkura. It was concluded nearly 40 years ago that to develop public universities, flexibility and autonomy should be achieved through autonomous university route (Kirtikara, 2004, p. 11-12).

Indeed, there is a great deal of diverse tasks for the university to achieve in the Second Long Range Plan since there have been many rapid changes within Thai society compelled by domestic and global factors. For example, universities should now focus on *the quality of education*, enhance their role in improving the economic productivity of the working population, and direct more efforts on continuing and life-long education in view of changing jobs and careers, and new and emerging occupations. Universities should be national prime movers for competitiveness with strong research basis. In addition, a classic and sustainable model of the King's novel philosophy on sufficiency economy is also addressed showing how this philosophy can be applied at every level through the role of universities (CHE, 2008b, p. 5). The concept of sufficient economy in the Second Long Range Plan exemplifies the style of blending Thai culture with Western educational models.

Thai society is bonded with the faith of multi-faceted nature and multiculturalism. Of all the given tasks by the government in the Second Long Range Plan, the socio-cultural function of the university is stated, and already prepared to correspond with *Higher Education Plan for Southern Thailand* (CHE, 2008b, p. 9). The function of socio-cultural integration appeared to emerge as a new function in the history of Thai higher education. Complex socio-historical factors leading to the existing violence in deep Southern Thailand has raised an awareness of the role of university in alleviating the ongoing killings in the deep Southern provinces, Yala, Pattani and Naratiwad.

### **5.3.2 Opportunism costs**

Types of funding for the university can generate opportunism. The current funding for the university consists of two main sources: an annual budget allocated from the government and revenue generated by the university itself. The latter source of the university incomes is poorly documented and normally under-reported (Kirtikara, 2002, p. 11). Basically, the revenue generated by the university itself can be managed in a more lenient and flexible manner (Weesakul et al., 2004, p. 22). Consequently, for example, this causes asymmetric information between the university and the government.

At the university level, the government allows each faculty or department to organize its own projects of entrepreneurial activities (Weesakul et al., p. 24). Many projects are initiated by individual administrators or instructors, who may be inclined to claim the ownership of the

project revenue for personal interests. This revenue, in fact, should be counted in the university income. This is an instance of economic opportunism at the university.

University opportunism, generally, is deeply rooted in the cultural structure of Thai bureaucracy. Opportunism costs are derived from political, economic and structural opportunism as discussed in section 2.2. *But what differentiates the opportunism costs of Thai higher education system from other systems is the structural opportunism that deeply embedded with pervasive corruption and favoritism.*<sup>24</sup>

It is evident that the cultural values embedded in Thai society have a considerable impact on the behavior of the university. Many forms of favoritism have shaped how individuals and groups within the university perceive this misuse of power as an unavoidable condition. Such impact of the collective perception towards patronage, cronyism and nepotism contributes to a formation of culture of corruption in Thai education. *Culture of corruption in education* entails a waste and unequal use of educational resources; illegal fees for admission, obtaining a diploma, getting promotion and lecturer recruitment; misallocation of talents; propagation of a culture of corruption (Hallak & Poisson, 2007, pp. 55-56).

It is difficult to measure university-opportunism costs. One approach to estimate these costs is to examine Corruption Perception Index (CPI). The chronic problem of corruption in Thai context can be regarded as a significant factor on the calculation of opportunism costs. Huge amounts of money will be lost during the implementation of any educational policy. The hidden costs from the opportunism revealed via corruption have severely increased the total agency costs (opportunism costs + governing costs) paid by the government. Table 7 reflects the indirect opportunism costs (structural-opportunism costs) in different systems.

The application of tangible data from CPI can be regarded as a justification of the calculation of the opportunism costs (structural-opportunism costs). In a certain extent, it is a decent reflection of how outsiders perceive the agency costs compared to other countries.

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<sup>24</sup> Favoritism will be discussed in section 5.4.1.

**Table 7 2007 Corruption Perceptions Index**

<b>Country Rank in the world out of 179 countries</b>	<b>Regional Country Rank</b>	<b>Country/Territory</b>	<b>CPI Score 2007</b>
<b>1</b>	<b>1</b>	<b>Finland</b>	<b>9.4</b>
<b>4</b>	<b>2</b>	<b>Singapore</b>	<b>9.3</b>
<b>17</b>	<b>5</b>	<b>Japan</b>	<b>7.5</b>
<b>34</b>	<b>6</b>	<b>Taiwan</b>	<b>5.7</b>
<b>43</b>	<b>8</b>	<b>Malaysia</b>	<b>5.1</b>
<b>43</b>	<b>8</b>	<b>South Korea</b>	<b>5.1</b>
<b>72</b>	<b>12</b>	<b>China</b>	<b>3.5</b>
<b>72</b>	<b>12</b>	<b>India</b>	<b>3.5</b>
<b>84</b>	<b>14</b>	<b>Thailand</b>	<b>3.3</b>

Source: Transparency International<sup>25</sup>

In the case of Thailand, the negative side of high corruption can be manifested through three possible reasons: low salaries of civil servants, ample opportunities for corruption in ‘wet public agencies<sup>26</sup>’, and low probability of detection and punishment of corrupt offenders (Quah, 2003, pp. 258-259). The UC can be categorized as a ‘wet agency’ since its major task is planning. The virtually unlimited autonomy of the UC through the institutional-autonomy policy allows the UC to have high tendency to become involved in corruption. In other words, the fundamental goal of the institutional-autonomy policy to upgrade the quality of research, teaching and students is hindered by not only the generic opportunism of the university (economic and political opportunism) but also the deep cultural immaturity derived from the culture of corruption (structural opportunism). The expected marginal outputs of the university from the autonomous-university policy indeed require very close attention from the government.

<sup>25</sup> CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysis, and ranges between 10 (highly clean) and 0 (highly corrupt)

<sup>26</sup> Wet agencies are defined as agencies dealing with money, planning, banking, or public enterprises. Dry agencies are those doing traditional administrative work. Perceptions of unfairness about benefits not only reduce staff morale, but lead to the feeling that illegal compensation is a fair way to even out staff benefits across agencies (Warwick, 1987, p. 43).

### **5.3.3 Information, monitoring and incentive systems**

To control the university's behavior, formally, the government has two-tiered information and monitoring systems. The first tier of information and monitoring system encompasses all governmental agencies, including higher education section. This first tier is comprised of legal and governmental bodies that operate on behalf of the government. For example, the National Counter Corruption Commission (NCCC), one of its mandates is to probe into alleged corruption on high-ranking government officials such as those within the university.

In addition to NCCC, the Official Information Act B.E. 2540 (1997) provides greater access to official information; citizens are better able to evaluate and scrutinize the government's management of affairs, to demand a fair treatment from the state and to participate in the decision-making process (Nikomborirak, 1999, pp. 6-8). Indeed, the operation of fire-alarm governance is strengthened by this Act. Multiple principals from non-governmental agencies such as students and parents have the right to access government information that was once kept secret within the bureaucratic system. The multiple principals can demand for more information about the university if they suspect the university's behavior.

The second tier of information and monitoring systems draws much attention to the unique characteristics of academic community. The main function of the university is to transfer and generate knowledge according to government policy. Therefore, it requires special government bodies to collect information and monitor the university's behavior. This tier emphasizes on academic quality by processing through quality assurance systems. Besides national education standards, discussed in section 4.4, there are two basic types of quality assurance system in Thai higher education (World Bank, 2007):

The quality assurance system in Thailand is divided into Internal Quality Assurance (IQA) and External Quality Assurance (EQA). The IQA system consists of quality control, quality audit, and quality assessment. Institutions take a full responsibility to set up and operate IQA, by conducting it on a regular basis as part of education administration. The results shall be submitted in an annual report to parent organizations, relevant agencies, and more importantly the public. The commission on Higher Education has established the standard criteria for IQA with the nine aspects of quality factors. EQA shall be conducted for all educational institutions by a public independent body, the Office of the National Education Standards and Quality Assessment (ONESQA) established in 2000. All institutions need to receive EQA evaluation at least once every five years. Institutions have to submit data, self-review report, and any information requested to ONESQA or external reviewers certified by ONESQA.

ONESQA performs the following functions (Bovornsiri, 2006, p. 211): 1) development of the external assessment system, 2) development of standards and criteria for external assessment, 3) certification of external assessors, 4) issuing certification of standards, 5) development and training of external assessors, 6) submission of annual reports on the assessment of education quality and standards to the Council of Ministers, the Minister and the agencies concerned, and 7) dissemination of the reports to the agencies involved and to the public.

Generally, the incentive system can be categorized as individual career advancement, promotion and future income, or funding for the university as an entire organization. On the other hand, intrinsic incentives could mean academic freedom of control in its own affairs. Incentive system is a provision of compensation for the university to perform the given task more efficiently and effectively.

More importantly, the government utilizes such a system as an implicit instrument to motivate the university through a contractual design with economic motivation. The institutional-autonomy policy can be regarded as one type of incentives that treats the university as a unitary unit (unitary agent). The government provides academic, personnel and financial autonomy for the university as an exchange for the expectation of more efficiency and effectiveness.

In 2004, the government introduced the extension of the retirement age of university civil service officers (teaching staff) from 60 to 65 years. However, this is not automatic for every member of teaching staff; only persons who obtain the academic titles of associate professor and professor with good health can apply to work until the age of 65 years (Bovornsiri, 2006, p. 203). The government has given more incentives for the university by cutting the red tape of employment regulation. Indeed, the university has more flexibility in retaining and obtaining qualified teaching staff, and utilizes the rich experience of existing teaching staff to the maximum benefit of the university.

#### **5.4 Empirical analysis: government-university relationships, institutional-autonomy policy and university governance from three perspectives of agency theory**

In this study, the government-university relationship and institutional-autonomy policy is the central framework of the analysis focusing on three perspectives of agency theory. The following are three types of university governance generated from agency theory.

#### **5.4.1 The perspective of socio-cultural agency theory: decoding cultural value orientations and structural opportunism**

Thai cultural embeddedness can be viewed as a crucial, influential and implicit factor towards the design of contractual relationship between the government and the university. The primary attention of this section is to indicate one context-setting factor of Thai higher education from the perspective of socio-cultural agency theory. *Favoritism* can be regarded as a significant context-setting variable that influences the structural design of contractual relationship.

The institutional-autonomy policy offers flexibility for the university to organize their curricula, create their own connections with industry, manage their own financial affairs, and employ their own administrators and lecturers. Nevertheless, it is still suspicious that who will be the main beneficiary of the institutional-autonomy model. From the academics and administrators' view, the UC, as the highest governing board within the university, appears to take advantage of virtually complete autonomy. Indeed, academic and administrative staff has a fear that the UC will be exploiting the power given from the government. The hidden controversy and conflict of the changing position of governing power from the government to the UC is still persisting, and will be one of the crucial factors in determining the success of the autonomy policy. A crucial question for the government is how an institutional autonomy model from the Western world can be applied to the cultural embeddedness of favoritism in Thai context.

The lack of trust towards the UC indeed requires intensive care from the government. The low degree of trust between the UC and other actors within the university has led to internal resistance to changes in the governance arrangements. Moreover, the external actors from the perspective of multiple principals such as students and parents also have doubt the trustworthiness of the UC. The lack of trust towards the UC is an example of problems derived from the institutional-autonomy policy.

Therefore, to design the contractual relationship with the university, there are two aspects that the government has to cope with. First, the government has to deal with the issue of the monitoring and controlling of university opportunism as a unitary unit, including every actor within the university (UC, academics and administrators). Second, the government has to give assurance that the information-monitoring systems work effectively to prevent the opportunistic behavior of the UC.

The declining level of trust towards the university as a unitary agent and the UC as one of the multiple agents is an example of how the structural opportunism of favoritism can have a

considerable effect on the design of contractual relationship. From the perspective of socio-cultural agency theory, trust, therefore, is a social agency relationship (an informal agency relationship) between the principal and the agent that glues their interactions and exchanges into an individual unit or society.<sup>27</sup>

Favoritism is a contributing and influential factor in the structural opportunism of Thai society. Favoritism in the education sector is defined as a mechanism of power abuse implying privatization and a highly biased distribution of state resources (Hallak & Poisson, 2007, p. 58). In the context of Thailand, favoritism has three main forms of malpractice: patronage, cronyism and nepotism.<sup>28</sup> One possible theoretical approach which helps explain favoritism in Thailand can be approached theoretically from four dimensions (cf. Hofstede, 1980; Licht, Goldschmidt, & Schwartz, 2004).

First, Hofstede proposes that *power distance* is the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally (Hofstede, 1980, p. 45). In addition, power distance is labeled as the degree of inequality among people which the population of a country considers as normal: from relatively equal (that is, low power distance) to extremely unequal (high power distance) (Hofstede, 1993, p. 89). This first dimension assumes that all societies are unequal, but some are more unequal than others; it depends on the different degree of the acceptance in social inequality within an individual culture.

Power distance concerns social inequality, including relations with authority. High power distance indicates that an unequal distribution of power among social institutions is viewed as legitimate (Licht, Goldschmidt, & Schwartz, 2004, p. 7). In a society with high power distance like Thailand, the acceptance of unequal power distribution has still prevailed implicitly. The perception of abuse of power in term of favoritism is likely to be one undeniable condition within the structural and contractual relationship between the government and the university, or even between different interest groups within the university. This reveals how informal rules of cultural embeddedness play against the formal rules of the government when the agent has to play under two sets of rules.

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<sup>27</sup> It is important to note that this study is limited to the analytical framework of agency theory where the main focus is on the agent (the university). The application of cultural embeddedness, therefore, primarily exemplifies the university's behavior although the government is also an actor in the realm of higher education that is affected by cultural embeddedness.

<sup>28</sup> Patronage in higher education means when a person in a high ranking position offers help or support to people with an expectation of return for support. Cronyism means illegal preference given to a friend; nepotism means illegal preference given to a relative (Hallak & Poisson, 2007, p. 30).

Second, *collectivism in Thai context* can be regarded as a root of favoritism in Thailand. Hofstede (1980, p. 45) classifies collectivism as a tight knit social framework in which people distinguish between in-groups (relatives, clan, organizations) and out-groups; they expect in-groups to look after them, and in exchange for that they feel absolute loyalty to them. Indeed, the collectivism of self-interested individuals and groups in Thai society formulate politics of mutual interests, and subsequently constitute to the system of favoritism. The following is an illustration of the current Thai perception about favoritism (Chiangkul, 2006, p. 117).

Many people [Thais] from different backgrounds, do not dislike privilege or patronage systems, but they dislike those who have privilege because they do not have privilege or have less connection like those do. This framework of attitude is the major problem. This is because politics has become a game of power struggle and patronage. Citizens have been manipulated to participate in the game of privilege or patronage...

Third and fourth, *uncertainty avoidance* and *hierarchy* are other two factors that have an impact on the attitudes of Thais on favoritism. Uncertainty avoidance indicates “the extent to which a society feels threatened by uncertain and ambiguous situations and tries to avoid these situations by providing greater career stability” (Hofstede, 1980, p. 45). Hierarchy in this dimension is defined as the reliance of culture on roles ascribed by a hierarchical system to ensure responsible behavior, and it defines the unequal distribution of power, roles, and resources as legitimate (Schwartz, 2004, pp.45-46). It is a condition that people in a society unconsciously take the hierarchical distribution as a way of socialization. The uncertainty avoidance and hierarchy are intertwined factors that result in shaping the embedded favoritism in Thai society. The acceptance of high degree of uncertainty avoidance and hierarchy in Thai society can be assumed from the aspect of historical relations between personal and social agency relationships.

Thai society has undergone and experienced a period of Sakdina system, a form of Southeast Asian feudalism, and “the strong control exercised by civil servants and the military over all the state’s affairs” (Orlandini, 2003, p. 98). Sakdina was not a system of territorial control but a “hierarchy of centers of authority whose influence in turn extended outwards and downwards with declining effect the further away one progressed” (Kemp, 1991, p. 317). To a certain extent, it implies that the attitudes towards and practices of the centralized system and bureaucracy from the past still prevail among Thais.

Although informal relations among self-interested individuals and groups are overwhelming among formal agency relationships in Thai society, it does not imply that these

informal relationships have threatened the design of contractual relationship between the government and the university. The implications of utilizing such informal contractual relationships within Thai society can be manifested in both positive and negative outcomes. Positively, under the informal agency relationships of social relations, UC (in this context, UC is the principal, and administrative and academic staff are the agent) can use the structure of *personal agency relationships* to solve the so-called problem of adverse selection in the recruitment of agents (cf. Shapiro, 2005, pp. 276-277). This is because the principal (UC or the department of human resources) knows the agent's type via personal familiarity with the potential agent or through members of trusted social networks in which both the principal and the agent are embedded.

Moreover, the type of behavioral control can be managed through rewards, praise, sanctions and punishment of *social agency relationships*, comprised of different forms of personal agency relationships, such as recognition, shaming, ridicule, criticism and disapproval. Indeed, the informal form of trust generated from personal agency relationships can enhance and formalize the embedded trust of a society. Trust in this sense demonstrates an intangible capital that fosters one type of social agency relationships.

The negative side of personal agency relationships generating social agency relationships, on the other hand, can cause structural opportunism. The practice of favoritism and connections prevailing in Thai society reflects this distortion of the application of informal agency relationships. In the context of multiple principals, the agent has to perform a task given by multiple principals. The problem of favoritism takes place because of the incompatible interpretations among multiple principals of the same given task. There will be a condition that the agent is compelled to choose the interpretation of one principal that best fit his or her interests.

#### **5.4.2 The perspective of political science agency theory: contractual design with checks and balances among political institutions and interest groups**

##### **a) Police-patrol governance**

In the dimension of police-patrol governance, the fundamental basis for reduction of information asymmetries and hidden costs from the university opportunism is high-quality of information mechanisms and governmental agencies performing as delegated inspectors. The purpose of the high-quality information mechanisms is to ensure that delegated inspectors can obtain accurate

and up-to-date data and information about the university's behavior. The role of delegated inspectors, subsequently, is to ensure that the university will perform fully according to the government policy, and to eliminate those opportunistic behaviors from the university by reporting to the government.

One of the weaknesses in the information and monitoring systems in Thailand is disorganized information, data and statistics. The secondary information on higher education and official collection data is not as sophisticated as in Western countries (Schiller & Liefner, 2007, p. 545). The education sector in Thailand faces systematic barriers to the appropriate planning and monitoring of performance and coverage due to a lack of institutionalization of information collection, processing and analysis (UN, 2005, p. 42). It is difficult to consolidate information for analysis and planning objectives at all levels since responsibilities for data collection, processing and analysis are divided amongst various departments at the central level and throughout local education areas.

There are three governmental agencies that evaluate and monitor the performance and quality of the university: CHE, Bureau of Standards and Evaluation of Higher Education, Office of the Public Sector Development Commission. There are too many criteria for assessing the university's outputs. These standard indicators (quality indicators) are set up by the three different educational agencies. The differentiation of quality indicators between these three agencies makes it difficult for the university and delegated inspectors to follow. This is because they are all principals of the university and delegated inspectors. The CHE (a governmental agency of the principal) as the main principal tries to reduce the potential problem of the goal conflicts constituting from multiple principals. The CHE has begun to solve this problem by merging the disparities of the standard indicators introduced by these three different governmental agencies. The expectation of outcome will be a single entity of 44 quality indicators belonging to only one governmental agency, which is CHE (Kiratikorn, former Secretary-General of CHE, 2007).

Two problems arise from this ill-organized information. First, the university has great difficulty in complying with the disjointed indicators the multiple principals have for evaluating given tasks. Second, the unsystematic data resulting from the lack of coordination among educational agencies create confusion for the delegated inspectors. The delegated inspectors do not have precise data or certain criteria to detect the university's opportunism.

The ineffective information and monitoring systems of Thai higher education have been one of the biggest weaknesses that hinder any governmental policies intended for improving the

quality of the system. Indeed, the information system itself creates information asymmetries among the government, the university and delegated inspectors. The delegated inspectors acting on behalf of the government have difficulty in detecting and monitoring the university's opportunism.

The accurate and up-to-date data of all education levels need to be collected and defined for the further development processing and analysis of education statistics. There is an urgent need of systematic and well-organized data collection. Moreover, the institutionalization of information collection, processing and analysis requires substantial attention from the government in order for it to feed delegated inspectors right and accurate information.

### **b) Fire-alarm governance**

The ideal concept of one principal and one agent does not exist in the real world. In fact, the model of multiple agents and principals usually functions according to the convergence of interests. The new mode of control from the institutional-autonomy policy certainly affects every stakeholder within the university. The UC and administrative and academic staff are likely to have more concerns about the potential decrease of their benefits. The new system means they have to work harder. All of them may behave opportunistically in order to retain their interests as a unitary unit. With more financial and academic autonomy, all agents within the university may turn a blind eye on the improvement of quality accompanied by the institutional-autonomy policy. Collective opportunism from the UC, academics and administrators can create a great danger as a side effect of the policy. The government is not able to detect such information because this can refer to a collective behavior of maintaining of self-interests through a channel of beneficial bargaining in the form of collective agents' interest. Indeed, the biggest concern is how to control the university opportunism when the university is not intensively under the control of bureaucratic system (police-patrol governance).

One of the scenarios for solving this problem is to make use of other principals having vested interests in the policy and the university. Students are also the principals of the university in terms of being service receivers. Both the government and students are the principals of the university. Unlike the government having the direct and active control over the university (police-patrol governance), students have a passive control over the agent by reporting the

university's behavior to the government.<sup>29</sup> In other words, the government can strengthen and fill the loopholes of the information and monitoring systems by encouraging social participations to control the university's behavior. Social control in this sense is referred to as a bottom-up monitoring and information system from multiple principals. The hidden and implicit behaviors causing information asymmetries can be lessened by this social participation.

Kiratikorn (2007), former Secretary-General of CHE, pointed out that there had been so many curricula and programs within universities that it was difficult for the government (CHE) or even the UC to assess the quality of these programs because monitoring is time-consuming and costly. The solution for such a problem, therefore, was assistance from students who know what had been going on with the curricula. Moreover, in order to strengthen the role of the student or other stakeholders [multiple principals (proxy inspectors)] in monitoring the university's activities, having an access to information related to the university's operation and activities is vital. First, this can be done by revealing information about the university's activities, especially those activities involving lots of money or having a significant impact on the university. Second, internal evaluation by the university itself and external evaluation by ONESQA should be available on the university website. It is a channel for communication to different stakeholders. Indeed, students, parents, or even the university staff can evaluate one another, and can use this information in the future to improve the quality of the university.

Moreover, Yamnun (2007), current Secretary-General of CHE, and Kiratikorn (2007) stated the importance of internship and apprentice (a new co-operative education scheme between the university, businesses and industries) for monitoring the outputs of the university in term of student quality. They expected that employers from businesses and industries (multiple principals) could help the government to evaluate the quality of graduates. Indeed, the government could have accurate access to information on whether the quality of outputs from the university fulfills the market demand. Yamnun also mentioned the process of establishing a large information database that can provide access to everybody, and also establishing a call center for receiving complaints about higher education issues.

As mentioned by the former Secretary-General of CHE, the more autonomy given to the university implies more accountability required from the university. From the perspective of fire-

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<sup>29</sup> In general, students do not directly report the university's opportunism to the government, but rather through the web of latent oversight mechanisms (Lane, 2007) such as the press. The press serves as a latent oversight mechanism for each of interest groups. While none of the groups directly employs the press to investigate or oversee the university's activity, many of the actors, especially the government, became concerned about the university's opportunism that they learn about from media reports (students employ the media as a channel of communication to the government) (cf. 636).

alarm governance, to enhance the accountability of the university, the government has to create two conditions. First, the government has to control the flow and availability of the information of the university's activities by demanding more transparency. Second, the government has to rely on proxy inspectors to help investigate and monitor the university's behavior.

Thai cultural embeddedness of social agency relationships possesses the so-called relatively low trust society due to favoritism. The cultural embeddedness of the Thai system responding to changes needs time to improve its maturity status to become a higher trust society. Meanwhile, one way that the government can ensure a fair system is strong and intensive information and monitoring systems. This can be done through transparency, accountability participation and social monitoring and control (Hallak and Poisson, 2007, p276; adapted from Sarvan 2003).

#### **5.4.3 The perspective of economics agency theory: contractual design via economic arrangements**

From the perspective of economics agency theory, *economic incentives arrangements* are the central concepts that reflect the university governance from this dimension. It is how the government allocate resources as an economic incentive in compensating for the commitment of the university to given tasks. A challenge for the government is how to build the right economic incentives into the resource allocation model within the design of contractual relationship with the university (cf. Jongbloed & van der Knoop, 1999, p. 161). Indeed, the major concern of the government is how to “get the incentives right to minimize the agency loss” (Mahoney, 2003, p. 305).

##### **a) Behavior-based governance**

The basic assumption of behavior-based governance is that the government utilizes input-based resources as incentives in order to control observed behavior of the university through tight bureaucratic mechanisms. There are two interconnected factors in this type of behavior-based governance. The first factor is the observed behavior of the university that is expected to report through bureaucratic system. The second factor, subsequently, is that the university has to report what it has done and what it is expecting to do according to conventional rules, regulations and

law of bureaucratic procedure. Trow (1996, p. 316) defines the second factor as ‘legal and financial accountability’.<sup>30</sup>

Currently, public universities (the university) in Thailand are still under behavior-based governance. The university has two sources of revenue for their operating costs: a budget allocated by the government (approximately 75%) and revenue generated by or within the university itself (approximately 25%) (Weesakul, Charsombut, Ratchapaetayakom, & Chinnamethipitak, 2004, p. 17). The budget from the government is still allocated via incremental budgeting and line-item budgeting (Kirtikara, 2004, p. 5; Liefner & Schiller, 2008, p. 286). The economic incentives (incremental and line-item budgeting) from this type of university governance may allow the university to have formal financial autonomy once their budget is set. The university has discretion to re-allocate within the total, but in practice, the process of review and estimation constrains their behavior (Sheehan, 1997, p. 132).

On the one hand, the behavior-based government of Thai higher education relying on incremental budgeting and line-item budgeting often creates overly rigid and lack of flexibility resulting in delays and inefficiencies (cf. Fry et al., 1999). A public university has to spend unimaginable efforts and time on paper work and lobbying in order to compete with other public universities for the budget allocation from the government (Kirtikara, 2004, pp. 5-6). More importantly, this governance places severe constraints on policy or developmental initiatives by the university (Sheehan, 1997, p. 132).

On the other hand, this type of economic incentives and tight bureaucratic mechanisms has some advantages that are overlooked by many policy makers. The government controls the university’s opportunism through the same criteria of strict rules via fixed or stable incentives. Although the university often grumbles about bureaucratic procedures and red tape, the existence of written rules and regulations that seem to pose barriers to the university in fact also have the complementary function of limiting administrative discretion. All actors within the university who function within their roles must perform to the same criteria. This ensures fairness and equity rather than personal favoritism; and subordinates are less subject to administrative caprice (Birnbaum, 1988, pp. 113-114). Indeed, within the university, the government can utilize the input-based resource allocation and tight bureaucratic mechanism to alleviate the opportunism that derives from strong favoritism in Thai culture. The written rules and regulations of resource

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<sup>30</sup> *Legal and financial accountability* is “the obligation to report how resources are used: is the institution doing what it is supposed to be doing by law, are its resources being used for the purposes for which they were given?” (Trow, 1996, p. 316).

allocation in this sense, to a certain degree, prevent structural opportunism derived from the embeddedness of patronage, cronyism and nepotism.

This is because the cultural embeddedness of favoritism has posed a threat to those actors within the university who do not have a safe guard both from the bureaucratic umbrella and governing power (UC) if the university has to become autonomous. Particularly, UC as an actor within the university will be equipped with virtual full autonomy and governing power from the government under the new rules of being autonomous university. Administrative and academic staff has concerns about the abuse of power from the UC.

Behavior-based governance demonstrates how tighter control can ensure a certain degree of fairness provided for academic and administrative staff. It helps to lessen the cultural immaturity of favoritism to a certain extent. Indeed, the bureaucratic umbrella (behavior-based governance) ensures the *feeling of security from economic incentives* for internal actors within the university.

The following are some instances of the feeling of insecurity from administrative and academic staff if they have to work under the autonomous-university policy, and how the new procedure will affect their future income and career advancement (adapted from Kirtikara 2004: 50-53).

- First, some civil servants (administrative and academic staff in public universities in Thailand is civil servants) wished to work for 10 years so that they were entitled to pensions. Some academic staff was in the process of promotion for assistant or associate professorship. They wanted to complete their career in the process of bureaucratic channel, so that they would get even higher pay as contracted employees, rather than going through the promotion process via the new channel of the autonomous university.
- Second, some are concerned about their financial security. In the civil service system, annual salary increments are normally based on working years. Thus, they can predict their future income based on the number of years they have worked. In the new employee system (autonomous university), on the other hand, the salary increments are determined by the UC according to both their performance and the university's financial status. This indicates that there is no increasingly fixed income for them and their salary may be reduced either if they do not perform well or the university revenue decreases.

- Third, there are worries about the university employment contract under the new system. The new employment contract was not as attractive and secured as the old employment contract based on permanent tenure.
- Fourth, They are concerned with “fairness” of the new system. They are uncertain about the staff evaluation system. They want salaries of all employees made public so that they would see the fairness of the new evaluation system from the UC.

From the perspective of administrative and academic staff, being autonomous university will alter their future income and their career security. The safety net of the bureaucratic system can guarantee their long-termed interests of economic incentives in term of income and career security. In the new system where UC has more or less full autonomy, the trustworthiness of this sub-organization has become a potential problem. The trustworthiness of UC needs closer attention from the CHE. Furthermore, the institutional-autonomy policy of Thai higher education appears to be a radical shift from the state-funded universities into virtually complete autonomy of managing their own affairs under the umbrella of the UC. The sudden change in the economic arrangements from the institutional-autonomy policy is likely to threaten the status quo of some interest groups within the university, and provoke fierce resistance and criticism.

#### **b) Performance-based governance**

In general, under the performance-based governance, the university will be enjoying autonomy and academic freedom. UC is able to make decisions on their own financial and accounting systems, and manage their own properties and assets (CHE). In addition, they can formulate rules and regulations for personnel administrations, and stipulate the welfare and benefits of their own staff and academic instructors. These autonomous universities have the status of governmental agencies that is neither within the government bureaucracy nor a state enterprise (Bovornsiri 2006). The government provides a sufficient block grant to guarantee the quality universities deliver. The universities can even receive additional funds from the government in cases where the university revenue is not sufficient to sustain the university’s operations

The institutional-autonomy policy (autonomous university) is a response to the structure of Thai bureaucratic system and budget allocation (input-based resources) that causes more difficulty for the university to respond effectively and efficiently to the rapidly changing academic environment. The negative side of tight rules and regulations of budget allocation (on what, how many, how much and when) have been a perennial problem for the university’s

activeness and flexibility towards new changes. Theoretically, indeed, the university under the behavior-based governance is losing the *power of expertise* (professional bureaucracy of academic) to the *power of office* (machine bureaucracy of hierarchical nature) (cf. Mintzberg, 2002, 173)<sup>31</sup>.

The performance-based governance is a scenario to fill the loopholes inherently embedded in behavior-based governance as discussed earlier. Performance-based governance has its advantages in three aspects (Liefner, 2003, p. 486). First, it can force institutions and individuals to pay attention to the governments and taxpayers who support the institution. Second, it can help to adjust the organizational structures of universities more quickly according to emerging needs and opportunities. Third, it can be used to re-allocate funds to those groups and scholars that have proved to be successful and to reduce the budgets of those who are not performing in an acceptable way.

For the performance-based governance, it appears that, under the government guidelines the university is trusted to make decisions that are in the best interest of the government. One of the most important criteria for performance-based governance is performance-based funding. Up to now, performance-based funding, i.e. budgets based on input criteria such as students or research funds and output criteria such as numbers of graduates and publications, are [seemingly] non-existent in Thai public universities (Liefner & Schiller, 2008, p. 286).

Under the institutional-autonomy policy, the performance-based governance (outcome-based governance) has been a relatively new system in Thai higher education. Under the Second 15-Year Long Range Plan, 2008-2022, it is stated that *performance-based indicators* used by the government to fund the university should be adjusted from the previous indicators used by government educational agencies (CHE, 2008a, p. 37). The government should utilize the principle of *financial autonomy* for allocating funds to the university. This structure should operate according to *financial structure of higher education* (CHE, 2008a, p. 38):

- Sources of funds by expanding revenues from different sources
- Allocation of funds by allocating the funds according to the mission of each university and the governmental policy

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<sup>31</sup> “Where as the Machine Bureaucracy generates its own standards – its technostructure designing the work standards for its operators and its line managers enforcing them – the standards of the Professional Bureaucracy originate largely outside its own structure, in the self-governing associations its operators join with their colleagues from other Professional Bureaucracies...So whereas the Machine Bureaucracy relies on authority of a hierarchical nature – the power of office – the Professional Bureaucracy emphasizes authority of a professional nature – the power of expertise” (Mintzberg, 2002, p. 173).

- Utilization of funds by using the government expenditure on higher education effectively and efficiently

However, it appears that so far there have not been any clear performance indicators set by the government for the university to follow. So far, the introduction of the autonomy policy has merely been an adoption of the self-regulation model without certain and tangible direction for the university. How the Thai government controls the overall outputs from the autonomous universities is still ambiguous if the performance indicators are still unclear.

From the perspective of agency theory, the introduction of performance-based governance in Thai higher education is to offer a new contractual relationship for the university. The government utilizes the new type of contractual relationship as a strategy to respond to the complexity of domestic and global conditions. The government has realized that it is difficult to respond to the rapidly changing conditions only through the means of behavior-based governance. *Economic incentives via the tight bureaucratic system do not motivate academics to respond effectively and efficiently to the changing context of what counts as knowledge.* Indeed, the expectation of local and national needs from what the university should produce is dynamic, especially in the globalizing world. Under the post-modern and post-industrialized era, Thai higher education is facing the overlapping definitions (local and global definitions) of knowledge from academic capacity of technological and scientific development, self-sufficient economy from Buddhism and the King, a building bridge within Thai pluralist society and among regional development of ASEAN community. The performance-based governance, indeed, is a result of how the government designs a new contractual relationship for the university in order to respond to the shift in knowledge from Mode 1 to Mode 2.<sup>32</sup>

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<sup>32</sup> “Knowledge produced in Mode 2 is knowledge results from a broader range of consideration. Such knowledge is intended to be useful to someone whether in industry or government, or society more generally and this imperative is present from the beginnings. Knowledge is always produced under an aspect of continuous negotiation and it will not be produced unless and until the interests of the various actors are included... Knowledge production becomes diffused throughout society. This is why we also speak of socially distributed knowledge” (Gibbons et al., 1994, pp. 3-4).

## 6 CONCLUSIONS

### 6.1 Agency theory, institutional-autonomy policy and Thai higher education

Agency theory provides an interesting theoretical framework for analyzing government-university relationships. The existence of divergence of interests and information asymmetries resulting in opportunism and agency costs guide the government to create a mode of control and motivation. In other words, the university is controlled via *design of contractual relationships* from three perspectives of agency theory.

The three perspectives of agency theory in this study are based upon three types of agency relationships. First, from the view of economics agency theory (types of funding and incentives), the government selects types of economic incentives as a compensation for the university with the expectation that the university will perform given tasks effectively and efficiently according to the government's preferences. To govern the university from this point of view, the government has to optimize the use of economic resources in order to reduce the agency costs resulting from the university opportunism.

Second, from the point of view of political science agency theory (types of monitoring), the government chooses either delegated inspectors or proxy inspectors, or even combine the two of them for detecting university opportunism. Third, socio-cultural agency theory (how social agency relationships have an impact on formal contractual relationships between the government and the university) is interested in how unequal rationales of different ethnic cultures that form social agency relationships have a significant impact on formal contractual relationships. Indeed, it reflects how an individual culture embedded in social relations of an individual nation can have a significant influence over the agency relationship between the government and the university.

The uniqueness of Thai higher education from its long heritage of national independence from Western powers in the past provides an intriguing case of how Thai higher education system possesses a self-determined administrative and academic system produced from a variety of Western education models. In this study, the investigation of Thai higher education can be seen as a beneficial instance of the application of agency theory in governance arrangements in higher education. It presents how the government tries to utilize the role of the university to cope with economic and socio-cultural needs in Thai society, and to integrate it into the changing

context of what counts as knowledge in the rapidly changing definition of knowledge. It appears that Thai government has chosen institutional-autonomy policy and performance-based governance (economics agency theory) is one of the main governmental apparatus to deal with the changing context of knowledge.

From the point of view of socio-cultural agency theory, nevertheless, favoritism can be regarded as a major hindrance to the development of institutional-autonomy policy. The institutional-autonomy is a two-edged sword. It is certain that the flexibility of the university responding towards changes increases when the power of the government is transferred into the hands of the university. With the effect of the cultural embeddedness from favoritism, the government inevitably has to use intensive monitoring and demand more accountability from the university. According to this study, the government is likely to take advantage of fire-alarm governance (proxy inspectors) to combat with the structural opportunism of favoritism embedded in Thai society.

In other words, when viewing the institutional-autonomy policy from the perspective of agency theory, besides the existence of police-patrol governance, fire-alarm governance with a transparent information system appears to be an appropriate solution for the government to cope with two-tiered opportunism and information asymmetries. The first tier is generated from the institutional-autonomy policy when the university has more opportunity to behave opportunistically. The first tier of opportunism is comprised of economic and political opportunism which is universal for all higher education systems. The second tier is derived from favoritism (structural opportunism). Structural opportunism varies according to individual cultural embeddedness of each system. Collective action from multiple principals is a necessary requirement to battle against the two-tiers of opportunism and information asymmetries in Thai higher education system. Indeed, it is a broad coalition of diversified players having vested interests with the university to investigate and monitor the university opportunism within the Thai context.

It should be noted that the theoretical functions of agency theory only reveals what types of governing can have a significant impact on the university's behavior and its response towards a changing environment. It does not mean that different styles of governance can guarantee the success of universities. Liefner (2003) indicates such empirical evidence by conducting research on the relationships between funding, resource allocation and university performance in different

higher education systems.<sup>33</sup> He concludes that what determines the long-term success of universities is not the type of funding or resource allocation but the quality of academics and students (pp. 484-487).

To sum up, the application of agency theory in this study provides an important contribution to Thai higher education in terms of economic arrangements and types of monitoring according to Thai cultural embeddedness. From the perspective of agency theory, the government has a major concern about university opportunism. The government indeed has to design the contractual relationships, in which given tasks are stipulated, so that the design of behavioral control can limit or prevent university opportunism.

## **6.2 Limitations of the study and implications for further research**

There are two main limitations in this study. First, it is an attempt to pioneer the combination of three perspectives from three different disciplines within a single theoretical framework of agency theory. It is a first stage in combining the previous work of agency theory done by scholars from different disciplines with different theoretical concepts such as power and institutions, and cultural embeddedness and structural opportunism. Moreover, it is a challenge of how to operationalize three perspectives of agency theory with the empirical study of the government-university relationships and the institutional-autonomy policy. These two challenges can cause some weaknesses in the study.

Second, time constraint could also have an affect on the in-depth analysis of this study. Having a limited time can result in the depth of empirical applicability of agency theory. For example, in-depth interviews with the relevant actors and key actors having a significant influence on the government-university relationships and institutional-autonomy policy are not included in this study. The in-depth interviews in a certain extent help to elaborate upon the issues that are raised in this study.

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<sup>33</sup> The investigation includes universities from the U.S. (Massachusetts Institute of Technology, MIT; University of Texas at Austin, UT Austin), Switzerland (Swiss Federal Institute of Technology, ETH Zurich; University of Basel), the Netherlands (University of Twente), and Great Britain (University of Bristol). The achievements in education and research of these selected institutions are widely recognized, and they serve as role models for other higher education institutions. The universities chosen for this study belong to different national systems, a wide spectrum ranging from market-oriented systems to state-oriented systems. The research was based on case studies of universities and in-depth interviews (117 interviews) with higher education administrators and professors. The case studies were carried out between July 1998 and October 1999.

It appears that agency theory can offer a wide variety of topics and research questions that might be addressed in future studies and research. Agency theory has been developed within many disciplines. There are both strengths and weaknesses that how each discipline reveals the underlying motivations of forming agency relationships between the government and the university. However, their theoretical frameworks overlap with one another when it comes to analysis. There are two possible ways of further research. One is to dig deeper in one discipline such as in psychological to discover what motivates the agent's behavior. The other way is how to combine different perspectives of agency theory in order to formulate a theoretical framework, and use it into an empirical research as it did in this study. There are some theoretical concepts introduced in this study such as socio-cultural agency theory and types of opportunism. These concepts, certainly, require modification and elaboration.

Theoretically, the complexity of hidden motivations of unitary, collective and multiple principals and agents is inevitably attributed to the weaknesses of a unitary framework between one principal and one agent. How to get the incentives right for different types of agents is a challenging task for the principal. Moreover, how to balance and compromise different competing interests among multiple principals is one of the main obstacles for the principal. Mixed messages and conflicting instructions from multiple principals can lead to inefficient and ineffective outcomes from the agent. Indeed, to capture the complicated world of agency theory based upon behavioral and contractual paradigm requires not only multiple frameworks of analysis but also multi-disciplinary approaches of analysis.

Moreover, the application of the governance arrangements from the agency theory perspective, in a broader sense, is not only the reflection of hidden motivations within the government-university relationships but can also be expanded to correlate with other relationships of different actors such as higher education institutions and industrial companies or institutions; higher education institutions and students.

Governing academic community is an art of control. Rigid means of control mechanisms may harm or worsen government-university relationships. Writing a policy is not easy. Its consequences may hurt some actors but benefits others. The purpose of *design of contractual relationships* in this study is to reflect a scenario of the governance arrangements in higher education from three perspectives of agency theory. Indeed, it assists the government to govern or control the loosely coupled system of academic community without hurting the trustworthiness of academic pride and pursuit of academic knowledge.

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