

Financial Management of Islamic Boarding Schools from the Perspective of Agency Theory: Case Study of Modern and Traditional Islamic Boarding Schools in Pekanbaru City

Eramli Jantan Abdullah^{1,2*}, Ilyas¹, Zaitun¹

¹Universitas Islam Negeri Sultan Syarif Kasim Riau, Indonesia

²Universitas Islam Negeri Sjech M. Djamil Djambek Bukittinggi, Indonesia

eramli6767@gmail.com

Abstract

This study aims to examine financial management practices in Islamic boarding schools (*pesantren*) from the perspective of Agency Theory. The main problem addressed is the persistence of challenges related to transparency, digitalization, and human resource capacity in sharia-based financial management within non-profit Islamic educational institutions. A qualitative multiple-case study design was employed, focusing on two *pesantren* in Pekanbaru, Indonesia: *Babussalam* and Dar El Hikmah. Data were collected through in-depth interviews, observations, and document analysis involving school leaders, foundation administrators, and financial managers. The findings reveal that both institutions have implemented basic financial management mechanisms, including planning, execution, and supervision. However, significant challenges remain in terms of transparency, adoption of digital systems, and professional competence. From an Agency Theory perspective, the relationship between school leaders (principals) and financial managers (agents) indicates potential information asymmetry and centralized decision-making, particularly in strategic financial allocation. Dar El Hikmah demonstrates more structured governance and partial adoption of digital accounting systems, whereas *Babussalam* relies on manual recording practices. Both institutions also face limitations in external auditing and stakeholder engagement in financial reporting. This study contributes to the application of Agency Theory in Islamic non-profit education by highlighting the interaction between moral-religious values and governance structures in mitigating agency problems. Practically, it recommends digital financial systems, regular external audits, formalized internal regulations, and enhanced professional training in Islamic accounting to strengthen accountability and long-term sustainability.

Keywords: Agency Theory, Financial Governance, Islamic Boarding Schools, Financial Accountability, Pesantren Management

INTRODUCTION

Islamic boarding schools (*pesantren*) are the oldest Islamic educational institutions in Indonesia and have played a significant role in human resource development and the dissemination of Islamic teachings (Dhofier, 2011). Over time, *pesantren* have transformed by integrating general education and life skills programs to respond to modern challenges (Azra, 2019). This transformation requires increasingly professional institutional management, particularly in financial governance.

Financial management plays a strategic role in ensuring institutional sustainability. Effective governance enables optimization of funding sources, including student fees, donations, government assistance, and business units, while maintaining transparency and accountability to stakeholders. In practice, financial management in *pesantren* includes planning, implementation, and evaluation processes (Suharjono, 2019), with diverse funding mechanisms such as scholarships and periodic payments (Muctar et al., 2016), as well as government support like BOS funds (Fitri et al., 2021). Some institutions have begun adopting digital financial systems to improve efficiency (Desniati, 2019), alongside efforts to strengthen financial independence through business units (Fitri et al., 2021). Professional management also requires separation of institutional and personal assets, competent financial personnel, and internal control systems (Suharjono, 2019).

However, many *pesantren* still face significant challenges in financial governance. The complexity of funding sources is often not matched by adequate governance systems, leading to risks such as weak transparency, inefficient allocation, and potential misuse of funds. Previous studies highlight persistent weaknesses in internal control systems and financial reporting practices (Masyhud, 2003; Yakin, 2014). These issues indicate the need for a more structured analytical framework to understand governance dynamics in *pesantren*.

Agency Theory (Jensen & Meckling, 1976) provides a relevant lens to analyze these challenges. The theory explains the relationship between principals and agents, where conflicts of interest and information asymmetry may arise. Eisenhardt (1989) emphasizes that transparency, monitoring mechanisms, and incentive alignment are essential to minimizing agency costs. In the context of *pesantren*, leaders or foundations act as principals, while financial managers function as agents (Arifah, 2012). Without adequate monitoring, asymmetric information can lead to inefficiency and governance risks (Shunhaji et al., 2020). Although *pesantren* operate within a moral-religious framework, ethical values alone are insufficient to eliminate agency problems, making formal governance mechanisms necessary.

The governance structure of *pesantren* is unique, combining charismatic leadership of kyai with modern management practices (Lukens-Bull, 2001), as well as diverse funding sources (Umam, 2014). Additionally, *pesantren* must balance Islamic values with modern financial management principles (Fauzi, 2017). Islamic governance principles such as *amanah* (trust), *'adalah* (justice), and *tabligh* (transparency) reinforce accountability, as reflected in Qur'anic guidance (QS. An-Nisa: 58; QS. Al-Baqarah: 282). These values align with modern governance concepts, including transparency and accountability, and support the mitigation of agency problems through ethical internalization.

From a practical perspective, digital transformation has emerged as an important mechanism to improve governance quality. Digital accounting systems can reduce information asymmetry, enhance reporting accuracy, and improve operational efficiency (Firman et al., 2017). However, implementation remains constrained by human resource limitations, infrastructure readiness, and institutional commitment (Naufalia et al., 2024).

Despite growing research on *pesantren* financial management, most studies focus on general financial practices, Islamic financial institutions such as BMT, or *pesantren* entrepreneurship (Muhsyaf et al., 2021; Pama & Aditya, 2022; Syahrizal & Anita, 2021; Hamzah, 2015). There is still a clear research gap in studies that specifically examine financial governance in *pesantren* through the lens of Agency Theory, particularly in understanding how governance structures, transparency mechanisms, and monitoring systems interact in practice. Furthermore, limited attention has been given to comparative institutional analysis and the integration of modern governance tools such as digital financial systems within *pesantren* contexts.

To address this gap, this study analyzes financial management practices in two *pesantren* in Pekanbaru Dar El Hikmah and *Babussalam* focusing on planning, implementation, supervision, transparency,

and accountability during the 2020–2024 period. These two institutions represent different governance characteristics: Dar El Hikmah reflects a more modern and structured system, while *Babussalam* maintains more traditional practices. This comparative approach provides deeper insight into how agency relationships shape financial governance in different institutional contexts.

Thus, this study contributes both theoretically and practically. Theoretically, it extends the application of Agency Theory in non-profit Islamic educational institutions by incorporating moral-religious dimensions. Practically, it offers recommendations for strengthening transparency, digitalization, internal control systems, and professional capacity to enhance accountability and long-term sustainability of *pesantren*.

METHOD

This research uses a qualitative approach with a multiple case study design. A qualitative approach was chosen because it allows researchers to understand in depth the phenomenon of Islamic boarding school financial management in a natural context, especially from the perspective of agency theory (Sugiyono, 2019). A multiple case study design was used to analyze and compare financial management practices at two Islamic boarding schools in Pekanbaru City, namely Dar El Hikmah and *Babussalam* Islamic Boarding Schools. The choice of this design was based on the consideration that each Islamic boarding school has different characteristics, scale and management systems, making it possible to obtain a comprehensive picture of the application of agency theory in the financial management of Islamic educational institutions.

The research was carried out in the 2020–2024 period in Pekanbaru City. Data sources consist of primary and secondary data. Primary data was obtained through in-depth interviews with key informants such as Islamic boarding school leaders, treasurers, financial managers, as well as other related parties involved in making financial decisions. Apart from that, direct observation of the financial management and documentation system was also carried out to strengthen the validity of the data. Secondary data was obtained from official Islamic boarding school documents, financial reports, organizational structures, and various supporting documents relevant to governance and financial management mechanisms.

Data collection techniques include interviews, observation and documentation. The collected data was analyzed using qualitative analysis techniques through the stages of data reduction, data presentation and drawing conclusions. The analysis process is carried out systematically to identify patterns, relationships and forms of alignment of interests between principals and agents in Islamic boarding school financial management. With this method, research is expected to be able to produce valid and in-depth findings regarding governance structures, planning mechanisms, implementation, supervision, as well as challenges and solutions in financial management based on agency theory in the two Islamic boarding schools.

RESULTS AND DISCUSSION

Financial Governance Structure

The research results show that the financial governance structure at the *Babussalam* and Dar El Hikmah Islamic Boarding Schools reflects two different institutional spectrums, namely the traditional-centralistic model and the semi-modern-structured model. In *Babussalam*, the centralization of authority in the leadership (Royan, 2025) shows the dominance of principals in almost all decision-making processes, including budget allocations. In contrast, Dar El Hikmah has adopted a more formal division of roles between foundation and treasurer (Amran & Nuryani, 2025), although strategic decisions are still centralized.

Theoretically, these findings indicate that the two Islamic boarding schools have not fully implemented optimal delegation mechanisms as assumed in Agency Theory (Jensen & Meckling, 1976). Strong centralization actually reflects "control-dominant governance", not "contract-based governance", so

reducing agent autonomy and potentially creating decision inefficiencies. This extends previous findings (Masyhud, 2003; Yakin, 2014) by showing that governance problems are not only caused by weak systems, but also by the design of power relations in organizations.

From a comparative perspective, Dar El Hikmah shows a transition towards modern governance, but still experiences "partial institutionalization", namely a condition where formal structures exist but practices are still influenced by a centralized culture.

Planning and Budgeting Mechanism

In the planning and budgeting aspect, both Islamic boarding schools apply a coordinative approach, but with leadership dominating the final decisions (Abdullah, 2025; Badrulani, 2025). Conceptually, this condition shows the existence of pseudo-participatory governance, where participation is procedural but not substantive. Within the framework of Agency Theory, agent participation should function as a mechanism for reducing information asymmetry (Eisenhardt, 1989). However, principal dominance actually maintains information monopoly, so the potential for decision bias remains high.

This finding is different from Naufalia et al. (2024) which emphasizes the importance of data-driven governance, so this research adds a new dimension that participation without redistribution of power is not enough to improve governance.

Financial Evaluation and Supervision

In the aspect of evaluation and supervision, Dar El Hikmah has a more regular evaluation cycle than *Babussalam* (Abdullah, 2025; Badrulani, 2025), but both institutions still face limited external audits. The absence of external audits shows the weakness of the independent monitoring mechanism, which in Agency Theory is the main instrument for reducing agency costs (Jensen & Meckling, 1976). Without this mechanism, monitoring systems tend to be internal and susceptible to bias.

Interestingly, in the Islamic boarding school context, the absence of external audits is often "compensated" by moral values and religious beliefs. However, these findings show that moral governance cannot completely replace formal governance. In other words, there are limits to the effectiveness of trust values in controlling opportunistic behavior.

Transparency and Stakeholder Participation

In terms of transparency, the two Islamic boarding schools are still not optimal in disclosing financial reports to the public (Mariaty, 2025). This shows a decoupling between norms and practices. Normatively, the *tabligh* principles in QS. Al-Baqarah: 282 emphasizes transparency, while in Agency Theory transparency functions as a mechanism for reducing information asymmetry (Eisenhardt, 1989). However, empirically, transparency is still limited to the internal scope.

These findings enrich the literature by showing that in religious-based institutions, normative values are not automatically institutionalized in organizational practices, so they require structural mechanisms to operationalize them.

HR and Digitalization Challenges

In the aspect of human resources and digitalization, *Babussalam* still uses a manual system, while Dar El Hikmah is starting to adopt a simple digital system. Digitalization in this context not only functions as a technical tool, but as a governance mechanism that is able to reduce information asymmetry and increase accountability (Firman et al., 2017; Naufalia et al., 2024). However, limited HR competencies indicate a

capability gap, which is the main obstacle to digital transformation. Thus, this research confirms that digital transformation in Islamic boarding schools is a socio-technical process, not just technology adoption.

Babussalam Islamic Boarding School and Dar El Hikmah Islamic Boarding School implement different financial governance systems in several aspects. At *Babussalam*, financial policies are determined by the foundation and supervised directly by the boarding school leadership with the main-focus on the sustainability of education based on Islamic values. However, financial recording is still done manually, although there are plans to improve the reporting system to make it more transparent. Meanwhile, at Dar El Hikmah, financial policies are more structured with a clear division of responsibilities between the foundation and financial managers. The foundation plays a role in setting policies and determining budget priorities, while the treasurer is responsible for recording and managing day-to-day funds. Despite this, major financial decisions are still centralized and the digitalization of recording systems is still in its infancy.

As an Islamic educational institution, Islamic boarding schools require effective financial management to support operations and development. Good financial management involves transparent budgeting, implementation, evaluation and accountability. Challenges often faced by Islamic boarding schools include a lack of separation between institutional assets and personal assets as well as a weak standard reporting system (Firman et al., 2017; Naufalia et al., 2024). To overcome this problem, Islamic boarding schools are advised to recruit competent financial staff, form a supervisory committee, and strictly separate institutional and personal assets. Several Islamic boarding schools have adopted a web-based financial management system that is integrated with barcode and SMS gateway technology to increase efficiency and transparency (Firman et al., 2017). Effective and technology-based financial management is a characteristic of advanced Islamic boarding schools which are able to provide relevant and reliable financial information for decision making (Naufalia et al., 2024).

From an agency theory perspective, there are The relationship between the principal (boarding school leader) and the agent (financial manager) needs to be clarified to reduce potential conflicts of interest and increase accountability. Agency theory highlights the potential for conflict due to information asymmetry, namely the condition when the agent has more information than the principal (Jensen & Meckling, 1976). To minimize information asymmetry, transparency, accountability, and the application of good governance principles such as fairness, responsibility and disclosure are needed (Eisenhardt, 1989). In the context of sharia finance, the concept of *tabligh* (openness) is also a normative solution to reduce information gaps between principals and agents.

In the aspect of transparency, both Islamic boarding schools still face challenges in disclosing financial reports to student guardians and donors. Many Islamic boarding schools in Indonesia do not yet have financial reporting that meets Islamic boarding school accounting standards, thus encouraging the development of accounting guidelines by related institutions such as Bank Indonesia and the Indonesian Accountants Association. The main obstacles include limited accounting competence, minimal collaboration with professional institutions, and low adoption of digital technology in the financial system.

In an Islamic perspective, financial management must be based on the principles of trust and transparency as emphasized in the QS. An-Nisa: 58. *Tabligh* principles in QS. Al-Baqarah: 282 also emphasizes the importance of recording transactions in writing to prevent disputes. In addition, the principle of 'is (fairness) requires that managed funds be used according to needs and not for personal interests. This principle is in line with agency theory's efforts to reduce opportunistic behavior through a clear system of control and accountability.

In the context of financial planning, both Islamic boarding schools still face challenges in the stability of funding sources and preparing accurate data-based budgets. Effective planning demands process

budgeting, implementation and periodic evaluation to ensure efficiency and effectiveness in the use of funds (Naufalia et al., 2024). The principle of planning in Islam is emphasized in QS. Al-Hasyr: 18 which emphasizes the importance of preparing carefully for the future.

At the implementation stage, *Babussalam* still uses a manual system which has the potential to cause recording errors and reporting delays, while Dar El Hikmah is starting to adopt a simple digital system. Digital transformation in the financial system has been proven to increase efficiency and transparency in various educational institutions and religious organizations (Firman et al., 2017). However, obstacles in the form of digital literacy and limited infrastructure are still common obstacles.

In financial supervision, weak external audit mechanisms and inadequate reporting standards are important issues. Many Islamic boarding schools are still limited to simple cash flow reports without comprehensive financial reports according to sharia accounting standards. To overcome this, training programs and increasing the capacity of financial managers are needed so they are able to prepare reports that comply with standards and increase public trust.

The challenges of implementing sharia-based financial management also include limited human resources who understand sharia accounting. Many managers come from religious educational backgrounds without professional accounting training, so sharia accounting training and certification is needed as well as increasing the competence of the Sharia Supervisory Board. Implementation of standards such as PSAK Syariah still faces obstacles, as is also the case in various Islamic financial institutions in Indonesia.

In an effort to diversify funding sources, several Islamic boarding schools have begun to develop sharia-based business units such as cooperatives, agriculture and halal minimarkets. This strategy is in line with the concept of Islamic economic independence and the development of student entrepreneurship. Digitalization of accounting systems Cloud-based is also a strategic solution to increase efficiency, accuracy and competitiveness of educational institutions in the digital era.

Overall, financial governance at the *Babussalam* and Dar El Hikmah Islamic Boarding Schools shows that there are efforts to increase transparency and accountability based on sharia principles, although they still face challenges in the aspects of human resources, technology, and dependence on external funds. This research is novel in the application of agency theory to Islamic boarding school financial management, which helps identify potential conflicts of interest between principals and agents and formulates a financial management model based on the integration of agency theory and sharia principles as a theoretical and practical contribution to the development of modern Islamic boarding school governance.

CONCLUSION

This research concludes that financial management at *Babussalam* Islamic Boarding School and Dar El Hikmah Islamic Boarding School has been running with systematic planning, implementation, and monitoring mechanisms, but still faces challenges in the aspects of transparency, digitalization and strengthening human resource capacity. From an agency theory perspective, the relationship between boarding school leaders as principals and financial managers as agents shows the potential for information asymmetry, especially in reporting systems that are still manual and the leadership dominates in strategic decision making. Dar El Hikmah Islamic Boarding School is relatively more advanced in its governance structure and use of technology than *Babussalam*, but both Islamic boarding schools still need to increase openness to external stakeholders in order to strengthen accountability and public trust.

Based on these findings, it is recommended that the two Islamic boarding schools strengthen their financial governance systems through digitalization technology-based recording and reporting, implementing regular external audits, as well as preparing more formal and documented internal regulations. In addition,

increasing human resource competency in the field of sharia accounting and modern financial management is an urgent need to minimize the risk of agency costs and increase the professionalism of fund management. The involvement of stakeholders, especially student guardians and donors, in the annual reporting mechanism also needs to be improved as a form of transparency and accountability that is in line with sharia principles and sustainable governance of Islamic educational institutions.

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