

**An investigation of organisational culture: a case study of  
Indonesia's professional accounting firms**

**by**

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## **Abstract**

Existing research on accounting firms has dealt with professional and ethical values, global professional networks, and nation-state organizational cultures, but there have been few studies that scrutinise all factors in a non-Western country such as Indonesia. As a fast-developing country, Indonesia offers a unique set of characteristics: cultural diversity, an emerging and strengthening economy, and exposure to many aspects of business globalisation. This study documents the impact of both global and local values and beliefs (institutions) on audit professionalism and accounting firm cultures.

The objective of this research is to investigate the extent to which Indonesian audit professionalism is influenced by external factors such as norms of Global Professional Networks (the Big 4), Indonesian cultures, political economy and the accounting profession. The organisational, as well as institutional, fields are observed to gain a thorough understanding of norms and values that are socially constructed by auditors within an accounting firm. These dimensions are combined in an institutional analysis, in order to explore all possible influences on beliefs and values of audit professionalism in Indonesia. To meet this research objective, the research question in this thesis is: To what extent do the values of the global professional network, as well as Indonesian national cultures, affect the manifestation of audit professionalism within accounting firms?

A qualitative approach is used, using an ethnographic method. Semi-structured interviews and observations collected the data in two phases. Phase One was a pilot study, for the researcher to make initial observation of current issues in Indonesian accounting. There were twenty participants, ranging from accounting staff from a university and partners from small accounting firms to chairmen from Accounting Associations. Phase Two was conducted in one of the Big-4 firms in Jakarta. Thirty auditors were interviewed and the questions consisted of attitudes and perceptions of audit professionalism in the accounting firm. Observations were made of auditors' behaviour during interviews, work and free time.

To answer the research question, this research employs an institutional logics framework offered by Thornton, Ocasio, and Lounsbury (2012). To enhance the understanding of the cultural' mix within an organisation, an institutional logics framework enables scrutiny of the multiple logics that are manifest in day-to-day behaviours. These logics are related to six audit professionalism dimensions offered by Kerr, Von Glinow, and Scherriesheim (1977): expertise,

autonomy, collegial maintenance of standards, ethics, professional commitment and professional identification. The institutional logic approach allows identification of the ideal types of institutions for an accounting firm in Indonesia, in that the framework may be re-calibrated to accommodate elements that reflect a specific country's norms and values.

This study found that institutions in Indonesian accounting firms differ from Western institutions which might be observed in similar contexts. The findings also suggest some different institutions compared to those of the model proposed by Thornton *et al.* (2012). There are four important institutions in the Indonesian accounting: *Keluargaan*, Clients, Indonesian Accounting Professionalism and the Global Professional Networks. *Keluargaan* is considered the fundamental element of Indonesian norms, is influenced by Javanese values of *Rukun* (harmony) and Respect. The regulatory institutions are strongly influenced by Javanese *Bapakism* (paternalism) and characterised by a high level of bureaucracy. Indonesian accounting professionalism underpins a norm of promoting Indonesian accounting quality and reputation, while the corporate institutions strongly reflect Western capitalisation and the norms of Global Professional Networks. The extent to which these institutions affect audit professionalism is analysed.

The study concludes that audit professionalism is a set of attitudes and behaviours that can be perceived and actioned differently in different locales, based on different institutional fields. With the significance of the above four Indonesian institutions, the application of Western audit standards creates a distinctive approach in Indonesia. The theoretical contribution emphasises the value of the development of Indonesian institutional fields, particularly in audit firms, while the practical contribution of this study will be toward the ongoing adaptation of audit and accounting standards in Indonesia. Limitations of the study are acknowledged, such as lack of previous qualitative studies in Indonesian audit firms and professionalisation, and cross-sectional data collection. Some suggestions for future research include cross-comparison to other Big-4 accounting firms, both nationally and internationally.

**Keywords:** Organisational Culture, Indonesia, Accounting Firms, Institutional Logics.

## Glossary

*Abangan*; a class in Javanese society that is considered as the lowest stratum, consisting of village peasants

*Bapak*; defined as a father, a charismatic figure, who demands respect, obedience and loyalty from subordinates

*Bapakism*; a behaviour that demands being respected, as well as deserving of compliments from subordinates

*Gotong Royong* denotes mutual assistance and the sharing of burdens

IFAC; International Federation of Accountants

IFRS; International Financial Reporting Standards

*Isin*; feeling shy, embarrassment caused by unmannerly behaviours

*Musyawarah* represents an equal attitude toward all voices and opinions, in order to establish the totality of a consensus of opinion

PPAJP; Pusat Pembinaan Akuntan dan Jasa Penilai (Center of Accounting and Appraisal Service)

*Priyayi*; the highest class in Javanese society, high-ranking members of the kingdom and those who are considered public figures

PSAK; Pernyataan Standar Akuntansi Keuangan (Indonesian Financial Accounting Standards)

*Rukun*; a value that can be represented as the maintenance of social harmony

*Santri*; a middle-class in Javanese society, with the majority of strict Islam believers.

SOE; State Owned Enterprise

SPAP; Standar Profesional Akuntan Publik (Public Accountant Professional Standards)

*Sungkan*; the Javanese characteristic of offering respect to the elders

# **Chapter 1**

## **Introduction**

## 1.1 Introduction

Globalisation is a phenomenon that is, at times, a threat to the indigenous cultures of countries which are considered as ‘minorities’ in the world economy. The effect of globalisation arises from the homogeneity of like-minded Western countries and the potential of globalisation to influence beliefs and norms in less-developed countries. Countries such as the US and most Western European nations, for example, have strong cultures, values and norms which influence and even control those in smaller, more ‘vulnerable’ nations. As such, a recipient country may be exposed to norms and practices that may not be appropriately implemented in different situations. The influence of globalisation from Western countries as ‘the dominating culture’ produces adverse effects in developing countries and, furthermore, the overwhelming influence of the globalised homogeneity of business norms has impacted on business practices and ethics world-wide.

Hegemonic transformation of developing economies can be described as the object of Western capitalism. Recent attention to business in developing countries by such large firms is seen as the need to continuously to enlarge one's revenue base, which is now static in the biggest capitalist economies. In accounting policies and standards, for example, most developing countries rely heavily on the former colonial influences, but such regulation tended to serve the needs of colonial enterprises. Moreover, there is little evidence that the development of accounting in most developing countries reflects local needs and circumstances (Perera, 1989). One argument for this is that Western accounting policies and standards represent a “logical guide” for these countries in order to reduce the cost of capital, lower investment risk and promote economic resources’ efficiency (Rosser, 1999). Others argue that traditional accounting in developing countries is seen to be incompatible with changes in the business environment (Chow, Chau, & Gray, 1995).

As a consequence of globalisation, Global Professional Networks (hereafter "GPN") is a phenomenon that reformulates organisational change in strategic and structural composition. GPN, which include the largest accounting firms, aim to secure global networks and alliances and are characterised as having multidisciplinary professional practices (Brock & Powell, 2005). There has been a major transformation from the local traditional partnerships into GPN and this has led to conflict between new organizational cultures from the GPN and the local organisations. Local partners often face a dilemma in trying to develop or mentor their local partners and staff careers, while their performance is judged by standards of those expatriates

in positions at a higher level. Studies of GPN such as Greenwood and Hinings (1996), Greenwood and Suddaby (2006), and Suddaby, Cooper, and Greenwood (2007) found that power and change dominate the expansion of international accounting firms into developing countries, while current studies in GPN mostly fail to take into consideration the cultural attributes of nation states.

One can argue that one of these enabling factors facilitating globalisation processes is this participation of the 'elite' groups in the accounting profession who support the development of international accounting standards. Such facilitation can be found in research on accounting development; such as that in Trinidad & Tobago (Annisette, 2000), Jamaica (Bakre, 2010), and Sri Lanka (Yapa, 2006). These developing countries strive to set a standard not only to accommodate the interest and demands of domestic conditions, but also to be able to follow the development of accounting harmonization globally. The recognition of the role of these 'elites' as an agent of globalisation cannot be avoided. There is an argument, however, as to whether the penetration of globalisation is due only to such movement derived by these agents, or more directly from a Western source.

On the other side of the spectrum, the issue of professions and professionalism has become an important aspect in explaining accounting development in developing countries. Activities of professions have a long history of development since the medieval period, when many of the oldest professions were formed to recognise their specific expertise in various jurisdictions (Abbott, 1988). Abbott also argues that it is important to examine the extent to which the professional and organisational commitments of professionals are linked to attitudes and effective reactions in the work environment, considering behavioural intentions, such as one's intention to gain promotion or leave a firm. One important definition from Evetts (2003) is to address professionalism as a 'normative value system', which argues that professionalism is part of the macro level of society, state and market, as well as the meso-level (organizations and institutions). Professionals, by means of their collegial organization and shared identity, demonstrate an approach towards the shared normative end (Evetts, 2003, p. 400). In spite of these numerous studies, few have scrutinised accounting professionalism in developing countries.

As one of the countries exposed to, and encouraged to move towards, a capitalism-based economic order, Indonesia has been overwhelmingly influenced by Western ideology, and the impetus to adopt a capitalism regime was inevitable. As a result, this has affected the

evolution of accounting systems. Initially, Indonesia was influenced by the Dutch and later by the US and recent studies describe the development of accounting systems and professions (see Murwanto, Khanna, & van Zijl, 2011; Sudarwan & Fogarty, 1996; Sukoharsono & Gaffikin, 1993b). These studies mostly agree that, historically, the purpose of accounting systems in Indonesia was to administer according to norms of Western capital markets, prepare financial reports and to ensure accountability. This remains the main objective of the system; that is, to serve the information needs of Western corporations. The danger, in this sense, may lie in the fact that developing countries such as Indonesia have little choice but to adopt Western accounting policies and standards that serve the interests of Western multi-national corporations rather than their own interests (Rosser, 1999). Another risk is that the production of Western accounting systems may not entirely serve the needs of small or medium-sized businesses which are critical to a country's economic well-being. There has also been a mismatch between the development of accounting professionalism and a country's demands to develop its economy (Poullaos & Uche, 2012). It is thus essential that the Indonesian cultural perspective is seen as an important factor in defining Indonesian accounting professionalism development. This has been previously neglected in relevant scholarship.

With regard to the accounting firms' organizational culture, there have been few studies providing an understanding of how important local norms and values are inherent in the accountants' points of view. There is a belief that shared values and behaviours have been the centre of management and organizational studies, but minimal attention has been devoted to why and how accounting practice evolved in the manner it has, and within specific organisational settings (Burns, 2000). As Allaire and Firsirotu (1984) and Pfister (2011) argued, exploring from an individual perspective is necessary when interpreting an organisational culture, and this approach is vital in scrutinising auditor's behaviours. In particular, cultural elements such as accountants' ethnic backgrounds and norms are factors that studies often disregard in relation to professional duties. Thus, at least two arguments underpin this thesis: (1) an appropriate approach is needed to unravel the contextual behaviour of accountants, and (2) there is a 'cultural gap' in discussing organisational culture in Indonesia.

The purpose of this chapter is to introduce the research question to be addressed and provide a brief overview of the study. This study is mainly concerned with how Indonesian audit professionalism is affected by cultural factors. There are at least three aspects that relate to the



current studies on accounting professionalism, organisational cultures, and institutional changes. Firstly, studies in ethical behaviour in Indonesia have focussed on the micro-level of institutions rather than a 'macro' perspective. Institutional fields are essential factors in ethical studies, in terms of involving historical, political and social backgrounds of an individual or organisation. Secondly, research has focussed either on the structural development of the Indonesian accounting profession or the attitudinal aspect of Indonesian professionalism. Few studies, however, acknowledge the importance of merging the two aspects and investigating the extent to which these aspects interrelate in an organisation. And thirdly, current institutional theory focuses on the dichotomy of change, such as the shift of professional paradigm from fiduciary or trustee logic into corporate logic. To some extent, this institutional change does not include the importance of local institutional content, such as local norms, ethnicity and educational background. In such cases, these contents are found to be the main influence of such changes but are neglected in the institutional studies.

This chapter consists of the following sections. Firstly, a brief overview of the current condition of accounting and globalisation and current issues in accounting professionalism. This is followed by the purpose and design of the study, the research question, research methodology and method. The structure of the thesis is outlined at the end of the chapter.

## **1.2. Purpose and Design of the Study**

The purpose of this study is to develop an understanding of cultural interaction and norms from various perspectives in an institution. Studies in anthropology, sociology and psychology emphasise the historical scrutiny, as well as actor-perspective, that are factors help to understand a cultural perspective. Recent research in accounting tends to focus on the single-core aspect, for example, the structural development of the Indonesian accounting profession, or the attitudinal aspect of Indonesian professionalism. But few studies acknowledge the importance of merging the two aspects and investigating the extent to which these aspects interrelate in an organisation. As such, the involvement of both aspects in this project enriches our understanding of cultural hegemony within an Indonesian context.

In order to observe possible norms that have not been detected by recent literature, this study will investigate possible cultural tensions between international and local ethnicities which affect accounting ethics and professionalism, from an indigenous (insider) perspective. Some studies of accounting professionals are found to be offer only a partial observation, when what

should be covered includes not only the contents of professional life, such as the association, licensure, and ethics code, but as much attention given to the context or environmental circumstances: professions operate in a specific setting (Abbott, 1988). Thus, the aspect of the fundamental context of the professional life is needed to be studied to understand a profession. Studies in ethical behaviour in Indonesia have focussed on the micro-level of institutions, rather than on the macro perspective. Thus, institutional fields are imperative factors in studying ethics, in terms of involving the historical, political and social backgrounds of an individual or organisation.

Another purpose of this study is to indicate the appropriateness of Western theory applied in different settings such as Asian countries. Current institutional theory focuses on the dichotomy of change, such as the shift of professional paradigm from fiduciary or trustee logic into corporate logic. To some extent, this institutional change does not include the importance of local institutional content such as local norms, ethnicity and educational background. These contents are neglected in the institutional studies, whereas in fact these factors can be the main influence of such changes. Hence, this study offers an indigenous perspective in order to understand such backgrounds, not often discussed in Western scholarship.

### **1.3. Research Question**

Extant studies on accounting firms have dealt with professional and ethical values, global professional networks and nation-state organizational cultures. To some extent there is both the possibility and advantage in combining and observing all such factors in research in a specific country, such as Indonesia; a country with a rich diversity of ethnicities, plurality of religions and rapid economic development. This study also offers the opportunity to observe an organization in a nation with significant foreign business influences, as well as local ones.

The objective of this research is to investigate the extent to which Indonesian professional accountants are influenced by external factors such as GPN, Indonesian cultures and ethnicities, as well as intra-organisational factors in the international accounting firms in Indonesia. The intra-organisational manifestation is often translated as norms and values that socially construct its members within the organisation in order to seek legitimacy (Dillard, Rigsby, & Goodman, 2004; Meyer & Rowan, 1977). These dimensions, along with some inter-organisational context, are combined in institutional categories, in order to explore the factors that influence accounting professionalism in Indonesia.

To meet this objective, the research question in this study is: To what extent do the values of the global professional network, as well as Indonesian national cultures, affect the manifestation of accounting professionalism within the accounting firms? As a subset of this, the project will also examine the extent to which there may be a ‘cultural’ intersection between the elements of Indonesian pluralist norms and beliefs and the organizational culture of accountancy firms. This necessitates unbundling the plural ethnicities; these are expected to be detailed in this study.

This research involves observing accountants with an “actor-centred” approach, observing and documenting his/her backgrounds. This is combined with a focus on professional developments in the organisation and cultural backgrounds. The spirit of this study is to investigate and understand cultural values and norms from the “native point of view”. It is suggested that this approach is likely to be the most appropriate when exploring organizations within multi-ethnic dimensions (Geertz, 1973; Gregory, 1983; Rasyid, 2008). The contribution is expected to bridge the gap between existing studies of the GPN and other Western concepts of the international and mid-tier firms - based on management and organisational theories - and shared cultural/ethnic values which impact on this, embedded in an anthropological approach.

#### **1.4. Research Methodology and Method**

This study employs ethnography as the methodology for the following reasons. Ethnography originated from anthropological theory, adopted by interpretivist symbolic interactionism (Crotty, 1998). Ethnographic research involves intensive, face-to-face participant observation and conversations in ‘natural’ settings over long periods. The aim is to produce systematic and robust narratives of the behaviour and idea systems of the actors in a particular organizational culture, profession or community. Moreover, the central idea is to get as close as possible to the participants in the community that the research is going to describe (Jönsson & Macintosh, 1997). In an accounting context, the interpretivist-based approach has been adapted to study the behavioural and interaction of accounting with human behaviour. These fields can capture aspects which cannot be considered in the positivist-based approach, such as accounting in the context of metaphors, rituals, symbols, values, norms and ideologies (Baker & Bettner, 1997). Thus, an interpretive accounting research is used to understand the notion of deeper meanings that structures have for human actors (ibid p.306).

The key to ethnographic study is to gather data derived from the question “how was it for them?” For this purpose, the intention, while interviewing, is to ‘talk, listen, be silent and observe’. More importantly, the researcher’s own understanding, developed since childhood, of the complexities and subtle ethnic distinctions in Indonesian societal norms enables an explanation of such expressions, and meanings behind some observed behaviours. Thus, this research is expected to capture the rich description of an auditor’s behaviour and social environment from an indigenous perspective, so that as a native Indonesian, the researcher is able to interpret the general patterns of social life within the Indonesian accounting firm. This research employs three approaches to data collection: interviews, participant observation and (of lesser importance) document analysis. These methods are believed to facilitate an appropriately reflective interpretivism in this accounting research; and has proved to be appropriate in investigating socio-cultural aspects within accounting firms (Hudaib & Haniffa, 2009; Kosmala, 2007).

### **1.5. Structure of the Thesis**

This thesis consists of ten chapters. The first chapter provides a brief overview of the background of the study, research question, the research approach taken and the structure of the thesis.

Chapter Two discusses the history and development of Western accounting professional bodies which influence accounting professionalisation in the UK and the US. The section also discusses recent studies on attitudinal aspect of audit professionals. The purpose of this chapter is to describe some of the historical events that occurred in the development of the UK and the US accounting professional bodies, as well as other developed countries, in light of distinguishing the two dichotomies of nations. The chapter also illustrates some of the recent studies in auditor attitudinal aspects and behaviours and the involvement of the Big-4 accounting firms in developing countries

Chapter Three discusses the history and development Indonesia’s political, economy, socio-cultural and the accounting profession after independence. This chapter describes Indonesia’s political and economic development during two major presidencies. The chapter also describes the two principles of Javanese values; Respect and *Rukun* (Harmony). These norms are considered basic norms that influence Indonesian attitudes and behaviours. The last section

illustrates the Indonesian development of the accounting profession, which describes both structural and attitudinal aspects.

Chapter Four discusses the theoretical framework that underpins this study. Institutional logics are thoroughly discussed in this chapter as a tool to assist answering the research question in regard to understanding interactions between the values and beliefs between national cultures and international norms. This chapter subsequently describes recent studies that employ institutional logics as their underlying theory, including those of an Indonesian context.

Chapter Five describes the methodological approach and research method used in this study. As a qualitative research, this study employs ethnography as methodology and uses three research methods: interviews, observation, and document analysis. These were collected in one accounting firm, called KAP (a pseudonym), based in Jakarta, Indonesia. The data collection was done in two stages: a pilot study and a main data collection.

The finding chapters can be found in Chapters Six to Eight. The presentation of these chapters is based on three central topics found in during the data collection: cultural influence, the Indonesian profession and client's behaviours. The three chapters are discussed briefly in the following sections.

Chapter Six discusses the cultural influence and values found in the field and the extent to which this value affect the manifestation of audit professionalism. The chapter starts with themes of Javanese values, such as the founder's value of nationalism and ethnicity issue, the value of *kekeluargaan* and tolerance, and perception of professionalism.

Chapter Seven discusses the Indonesian accounting profession, as well as professionalisation issues embedded in the regulation process. In relation to the main research question, this section describes the professionalisation stage in an auditor's career, the history of accounting regulation and the extent to which these regulations affect an auditor's behaviour and actions in his professional attitude. The section will document the extent to which Indonesian politics and socio-economy influence the development of the audit profession.

Chapter Eight discusses the client's behaviours in relation to audit professionalism. The chapter describes the hierarchical attributes possessed by most Indonesian clients, the domination of client's behaviours that surround the auditor's tasks and the ethnic perspective in relation to client's behaviours. These elements represent the different points of view that auditors must anticipate in the Indonesian business community. Tensions and influences are expected to

occur between auditors and their clients and, most importantly, the extent to which the auditor must maintain quality audit services, and standards.

Chapter Nine is the synthesis of findings and discussion. It summarises all findings pertaining to Indonesian cultures, as well as identifying the Indonesian institutions related to Indonesian accounting firms context. It is expected that the discussion will lead to comprehension of all such cultural factors that influence Indonesian accounting professionalism. The last chapter Ten, Conclusion, also contains a consideration of limitations, and future research avenues which may be stimulated by this study, in order to effectively to conclude the research.

## **Chapter 2**

# **The Professionalisation of Accounting in Developing Countries**

## **2.1. Introduction**

Over the last 25 years, the accounting literature on professionalisation has focussed on how accounting elites gained privileged positions in the markets, and relationships between institutional and social actors. The development of this research area extends from a locus of internal development into broader studies of social, economic and political contexts of professionalisation. Many argue that professionalisation processes often cannot be separated from a country's economic and political history and development. This chapter elaborates on the development of accounting professionalisation in developing countries, which generally originated from nations formerly colonised by Britain. This chapter also describes the extent to which imperialism affected the development of accounting professionalisation and systems in such countries.

The chapter is divided into two main sections: the Western accounting professions and professionalisation, and recent structural and attitudinal studies of audit professionals in developing countries. The first section elaborates on the history of the Western accounting professions, specifically the United States, the United Kingdom and the Netherlands. The second section describes development of accounting professionals in developing countries. This chapter identifies some of the aspects related to structural and attitudinal professionals, both in developed and developing countries; in particular with regard to how history has affected the development of accounting professionalisation.

## **2.2 The Profession and Professionalisation of Accounting**

The development of a specialised labour force as a profession has become increasingly important to economic growth in both developed and developing countries. The growing demand for professional labour such as doctors, architects, lawyers and accountants initiated the effort to promote these professions into legitimate and formal institutions. Abbott (1988) argues that professions exist in accordance to their specific activities under various jurisdictions. Moreover, professions are classified as “organised bodies of experts who applied esoteric knowledge to particular cases [and] ... elaborate systems of instructions and training, together with entry by examination and other formal prerequisites. They normally possessed and enforced a code of ethics or behaviour” (Abbott, 1988, p.4). Furthermore, Lee (1995) defined a profession as an “occupation organised by a formal institution, whose practitioners are committed explicitly to serve the public interest, and who offer client services related



directly to an intellectually-based body of knowledge” (p.48). As a member of a profession, one must maintain integrity of his/her quality of services to a client in accordance with the appropriate expertise; such professional skills are gained from specialised training and knowledge development. The structural aspect is also connected with a person’s occupational background, such as formal education, entry requirements, professional associations and the formation of the profession’s code of ethics (Hall, 1968; Lee, 1995).

Professionalisation, as a process to upgrade knowledge and ethical consequences of professional behaviour, also leads to the requirements to maintain both technical skills and social responsibility to society. Hall (1968) suggested there are two important aspects that represent professional attributes: structural and attitudinal. Under the structural aspect, professionalism deals with the creation of a full-time occupation, establishment of a training school, the formation of professional associations, and the formation of a code of ethics. The attitudinal aspect, on the other hand, relates to the manner in which the practitioners view their work. In other words, it is the professional’s attitudes and behaviour. Studies have employed various attributes related to professional behaviours, values and identification. Furthermore, when meeting the required structural aspect, a professional must obtain attitudinal attributes such as: the use of the professional organisation as a reference; a belief in service to the public; a belief in self-regulation and a sense of calling to the field, and a character of autonomy. These variables are examined to observe an auditor’s attitudes towards organisational commitment and conflict, auditor independence, ethical development and cultural context. These aspects illustrate a high degree of professionalised occupations and can serve as a parameter to professional expertise.

### ***2.2.1. Studies of the United States and the United Kingdom Accounting Professional Bodies***

This section examines two Western countries which are considered influential to the development of accounting professional bodies: the United States and the United Kingdom. Both countries have contributed significantly to the development of other nations, particularly Third World countries. The motivation to include historical content of professional bodies is: (1) to discover challenges that faced the accounting profession in a particular country; and (2) to describe whether or not there have been value changes within the profession, as well as auditors in the Big-4 accounting firms (Zeff, 2003a). It is expected that by understanding the structural aspect of an accounting profession, one might perceive implications to an auditor’s values and behaviours.

A number of researches have been conducted in relation to professional structure and attitudinal aspects. In Western history, the accounting professional bodies can be traced back to the UK to where the first formal association of accountants was formed in Edinburgh and Glasgow (1853), Aberdeen (1867) and England (1870) (West, 1996). It was then followed by the establishment outside the UK in North America (1880) and Australia (1885). The initiation of the profession was partly to cope with economic and social changes, when Britain had tremendous shifts in population, industry, and trade, the increasing involvement of the state and decreasing church domination of society (Lee, 1995). Moreover, such new professions were initiated by the middle classes in order to gain financial security and social status. In the early stages of professionalisation, accountants were given 'social status' and becoming an exclusive 'professional accountant' distinguished one from bookkeepers or clerks (West, 1996).

In recognising such economic changes, and the potential bankruptcy law changes, Scottish accountants decided to formally establish the Society of Accountants in 1854 in Edinburgh, later known as ICAS (Lee, 1995). This development continued throughout the UK, where by the end of the Nineteenth Century, England, Wales and Ireland had established their accounting associations. The global expansion of the British Empire brought British accountants to their colonised nations and promoted Anglo-Saxon accounting systems. Nonetheless, the non-white nations such as Trinidad and Tobago, Jamaica, Kenya and Nigeria had different experiences when adapting the Anglo-Saxon accounting systems and the local development of professionalisation. French influences across China and South East Asia had a similar impact, as did Belgium, Spanish, German, and Dutch imperialism elsewhere.

While British-originating accountants continued to be influential world-wide, the need for US accountants was also strongly felt during the growth of commercial demand in the USA. The migrant UK accountants realised that there was no formal accountants association in the US and urged the establishment of one there. Hence, the first professional accountants body, named the American Association of Public Accountants in 1887 was established (Lee, 1995). At first, these associations sought state legislation (e.g. in New York) in order to hold their training for certification. New York State, for example, accredited the professional accounting body and provided a certified public accountant for licensed accountants. Both bodies experienced much turbulence of interests amongst fellow accountants, the State and the accreditation providers. Internal rivalries among the accounting professional bodies occurred in their efforts to become

the authoritative body of professionalisation legitimised by the State. Moreover, the history of accounting professional bodies in both UK and US has had similar drivers during its development. The Industrial Revolution in Europe and US between the 1840s and 1870s, the expansion of capital and trading and the mobilisation of populations underpinned the emergence of professional bodies of accountants.

The above explanation suggests that both professional bodies in the two countries were heavily influenced by political and economic developments. Lee (1995) argued that both associations were established due to the notion of economic self-interest in the name of public interest, in order to protect a threatened economic monopoly. Eventually, it became evident that the spirit of the UK and the US was to support liberalism and capitalism in the market. The few occurrences of professional rivalry within the profession were gradually diminished by the merger of some institutions in order to obtain a state monopoly by registration. The profession had grown significantly, while a number of services were added to facilitate the growth of economy in these Western nations. Moreover, there has been a change of auditors' behaviours due to change in most accounting firms' orientation. The market liberalisation allows accounting firms to prioritise market competition and is profit-oriented, rather than to protect public interest (Brock, 2006; Thornton, Jones, & Kury, 2005). The changing structural pattern in the professional bodies and large accounting firms has transformed auditors' orientation and behaviours from audit mentality to consulting mentality (Zeff, 2003b). This explanation provides a notion of how important a historical content of accounting professional bodies is to this thesis.

### ***2.2.2. History of the Dutch Accounting Profession history***

This section describes the history of Dutch accounting profession, which contains the first established Dutch profession and the development of the profession. The reason to include this section in this thesis is because Indonesia was part of a Dutch colony for more than 350 years. Indonesia was thus heavily influenced by Dutch political and economic institutions. It is believed that the development of the Indonesian accounting profession was also influenced by the Dutch accounting systems and profession.

The first Dutch accounting firm was founded in 1883, when a firm called Het Bureel van Boekhouding '*Confidentia*' performed its first audit work (Zeff, van der Wel, & Camfferman, 1992). Subsequently, in 1895 the *Nederlandsch Instituut van Accountants* (NiVA) was founded

by E.W. Schallenberg, a partner in *Confidentia*<sup>1</sup>. This profession was highly supported by the Dutch accounting professors, in which they were mostly part-time in their university while practising as auditors (Bollen & Lin-Van Nuffel, 1997). Most of the accounting programme was developed to fulfil the need of Dutch auditors as registered accountants. The programme, entitled *bedrijfseconomie*, was introduced by Theodore Limperg Jr., who was a professor from Universiteit van Amsterdam. The Limpergian theory was the most dominant in the NiVA, which derived from a general economic framework and audit studies. These orientations were different to those proposed by the Rotterdam school, which focussed on a more pragmatic and inductive approach in accounting. This eventually created friction amongst accounting graduates, especially Rotterdam scholars.

Internal rivalry over the education programme led to the second establishment of a profession body: *the Vereniging van Academisch Gevormde Accountants (VAGA)*<sup>2</sup> in 1927, led by the Rotterdam school (Bollen & Lin-Van Nuffel, 1997). During this period, the Dutch began to establish voluntary consolidated accounts in a number of firms. The rivalry of professions continued until 1967, where both NiVA and VAGA decided to merge and became *Nederlands Instituut van Registeraccountants (NivRA)*<sup>3</sup>. Prior to the merger, the Dutch accounting profession was unregulated and the audit of financial statements was not restricted to registered accountants. NivRA represented all registered accountants who were entitled to audit financial statements of firms.

In 1948, a third major body was established: the *Nederlandse Orde van Accountants-Administratieconsulenten (NOvAA)*<sup>4</sup>. This body's members include accountants who serve small and medium companies. In 1967, when the profession was regulated, these members were not registered as accountants and thus they were not entitled to perform audit work. Eventually, the members of NOvAA were given *Accountants-Administratieconsulent (AA)* in 1974.

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<sup>1</sup> The Bookkeeping Office 'Confidentia'

<sup>2</sup> The Society of Academically Trained Auditors

<sup>3</sup> Dutch Institute of Registered Accountants

<sup>4</sup> Dutch Association of Accountants-Administrators

In terms of accounting education, the Dutch have a four to five-year bachelor degree to complete. Sometimes, they consider the programme as being equivalent with the US Masters degree. The economic science is divided into two parts: general economics and *bedrijfseconomie*. This programme was dominated by the Limpergian theory, in which much of the teaching, writing and practices were focussed on economic theory for several decades. Due to the awareness of other European countries' competition and globalisation, the accounting curricula gradually shifted to using British textbooks. Upon the completion of the Bachelor of Economics (*bedrijfseconomie*), all graduates are entitled to receive *doctorandus* (abbreviated: drs) in front of their names, which means "candidate for a doctorate degree". In addition, all graduates who wish to become registered auditors must enter the NIVRA training course. After passing written and oral examinations, they will receive a title called *Registeraccountant*, abbreviated to "RA" (Zeff *et al.*, 1992).

In terms of culture, the Dutch are associated with these values: conservative, tolerant, egalitarian, permissive, and consensual (Lewis, 2006). These values have influenced the way of doing business, as well as decision-making in an organisation. Apart from having large conglomerates, such as Shell, Unilever and Philips, the Netherlands has many small firms, which enhance a close social cohesion. The securities market is dominated by a small number of commercial banks, merchant banks and institutional investors whose executives are known to one another (Zeff *et al.*, 1992). Auditors are also a cohesive community, due to the fact they know each other from committees and at conferences in NIVRA, and through their lecturing and examining at the six universities and at the NIVRA, where students are educated to become registered accountants. According to Zeff *et al.* (1992), the Dutch appreciate modesty, and tend not to behave better than someone else. Group solidarity is placed higher than personal interests, and individual aggressiveness and open expression of emotion [in committees] is not highly valued. In terms of applying such behaviour to the standard settings, Americans are more disputatious while the Dutch prefer to settle it by consensus and compromise. Moreover, the Dutch have a slightly different treatment when handling financial press. They tend to be more cautious and use polite language in responding to the press, compared to the US and UK. The Dutch are believed to be more secretive about the workings of their institutions than those of the US and UK. There is less openness of process in the Netherlands. For example, all standard setting meetings have been held in private, and no consultations have been held with interested organisations on any proposed publication of drafts and statements. The Dutch

believe that secrecy of process is more consistent than openness in solving conflicts by negotiation (Zeff *et al.*, 1992). Moreover, the decision-making hierarchy within Dutch companies is intended to balance shareholder and employee interests, both being stakeholders. In large Dutch companies, shareholders are not entitled to choose the management board. Management has the legal obligation to act in the interests of the company as a whole, not focussed only on investors, as in the US.

### ***2.2.3. Studies of Accounting Professionalism***

Research into behavioural audits has employed various attributions in order to understand the ‘organic’ side of audit, as opposed to the ‘mechanic’ audit. The former represents attitudinal behaviours, which are often related to ‘unmeasured’ manifestation; while the latter represents the technical side of auditing. Thus, it is important to establish an appropriate setting that correlates to the purpose of this study: to discover cultural factors that influence audit professionalism. As a quantitative measurement, it is superficial to understand such complexity of behaviours (Baskerville, 2003; Dirsmith & Haskins, 1991), and hence a possible qualitative degree of analysis is required to support the study. In generic terms, a ‘professional’ needs to meet the following criteria: as a sense of calling to the field, a belief of service to the public, belief in self-regulation, autonomy, and the use of the professional organisation as a major referent (Hall, 1968). Thus, Kerr, Von Glinow, and Schriesheim (1977) offered six dimensions of professionalism, which represent ideal types of professional behaviours and attitudes.

#### ***2.2.3.1. Expertise***

The Expertise dimension is closely related to the educational learning process of a specific skill. In the context of individual performance, expertise can be defined as “the optimal level at which a person is able and/or expected to perform within a specialised realm of human activity” (Swanson, 1994, p. 94). Moreover, expertise lies in possessing superior skills or knowledge and implying proficiency in a particular area of study (Herling, 2000). The nature of professional service firms (PSF) such as accounting firms, is to provide a quality of service to clients by way of professional solutions or services. The key element of PSF is to have strong human capital intensity and expertise to ensure the best knowledge is provided to the clients. Moreover, PSF is believed to have a strong bond with its clients, admitting the fact that the firm is dealing with humans where interaction is prominent for a successful service. Von

Nordenflycht (2010) identified three characteristics relating to PSF: Knowledge intensity, Low Capital intensity, and Professionalised workforce. Knowledge intensity signifies the importance of intellectual human capital, such as skilled personnel. Low capital intensity means that PSF does not involve significant accounts of nonhuman assets, such as inventory, factories and equipment, and even intangible nonhuman assets like patents and copyrights (p. 162). "Professionalised workforce" refers to the 'product' of knowledge intensity, which is professional ideology and self-regulation. A professional ideology is defined as a set of norms manifested in ethical codes, enforced by professional associations and in internalised preferences developed during professional training (Leicht & Lyman, 2006).

#### *2.2.3.2. Autonomy*

Autonomy can be perceived as a right to make decisions about both the means and goals associated with one's work (Norris & Niebuhr, 1984). In this context, autonomy is closely related to auditor independence. Based on the IFAC Code of Ethics, auditor independence comprises 'independence of mind' and 'independence of appearance' (IFAC, 2010). Independence of mind refers to an expression of conclusion without being affected by influences that compromise professional judgement, while independence of appearance is defined as 'the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's integrity, objectivity or professional scepticism has been compromised' (IFAC, 2010, p. 42).

However, there is a degree of uncertainty when dealing with violations and rules from the auditors and seems to be a 'local' interpretation that underpins the international code. Sucher and Kosmala-MacLulich (2004) investigated the construction of auditor independence in the Czech Republic. They found that there had been a different interpretation in defining what the IFAC Code and the local regulations meant. As such, they argued that the context of auditor independence is heavily influenced by socio-economic and cultural pressures, market instability and an immature legal framework. In another case, Hudaib and Haniffa (2009) investigated a similar context in the Kingdom of Saudi Arabia. By employing Blumer's interactionist approach, they associated auditor independence with various cultural dimensions such as the king's family businesses and lack of expression. Moreover, auditor independence

was heavily influenced by the powerful elitist group and conglomerates, and thus provided little space for the auditors to adjust their behaviour to meet the expectations of their clients. Organisational culture and religious belief within the local firm may also influence the auditors' behaviour: one firm was found to be highly conservative with a high degree of "power distance" between staff and manager in the organisation. In sum, the two contrasting settings illustrate that auditors' behaviour and attitude vary across nations, even when compliance with international standards would lead one to expect some similarity of behaviours.

### 2.2.3.3. Collegial maintenance of standards

According to Kerr *et al.* (1977), collegial maintenance of standards refers to a perceived commitment to help police the conduct of fellow professionals. Supervision among colleagues is an effective control method to maintain the quality of professionalism, both formal and informal. In this case, the Indonesian accounting professionalism role as an institution represented norms and beliefs related to the maintenance of standards. Auditors, as members of the IAI and IAPI, have a responsibility to maintain the integrity and objectivity as a professional auditor. Furthermore, Kerr *et al.* (1977) argued that in maintaining the standards, "It is also true that the formal and informal mechanisms exist for the regulation and control and in many scientific specialties at least occasionally. These are used for certification, establishment and review of practitioner competence, and to censure or take other punitive action against reviews of those judged to be unethical or unqualified." (p.339). Dirsmith and Covalleski (1985), and Cooper and Robson (2006) confirmed that the purpose of informal communication is to maintain performance of audit tasks within and outside the accounting firms. This shows that the monitoring of audit standards must be done by fellow auditors, both formally and informally.

It is believed that standards should be enforced by fellow professionals who are the only ones properly equipped to adequately evaluate work in the field (Norris & Niebuhr, 1984). Collegial control is believed to be the 'root' of partnerships in accounting firms. As Greenwood *et al.* (1990) defined, professional partnership is a form of association that protects a professional's independence; promotes and maintains professional standards; links market performance with firm reputation, and increases liability for professional negligence by others. The nature of professional partnerships indicates that the distribution of authority is based on collegiality,



peer evaluation and autonomy. Moreover, within the traditional professional values, professionals seek collective control based on collegiality (Brock, 2006).

Partnerships such as accounting firms have experienced a number of challenges when adapting to the global business environment of multinational enterprises. This environment varies from deregulation of professional markets, increased competition, financial constraints and cost pressures to changes in governmental policy and technological developments (Brock, 2006) and it is likely that partnerships regularly reformat their organisational structure to answer these challenges. During the 1980s, there was a shift of professional paradigm from a “professional type” into a “commercial type” of partnership (Baskerville & Hay, 2006; Wyatt, 2004). The collegial control and decision-making, as well as peer evaluation, became automated and were replaced by a set of performance management processes and a corporate hierarchy to improve staff coordination (Lander, Koene, & Linssen, 2013). Thus, this study will examine whether or not there has been a similar paradigm shift of accounting firms in Indonesia, as well as the importance of collegial maintenance of standards.

#### *2.2.3.4. Ethics*

Ethics can be defined as a “felt responsibility to avoid self-interest and emotional involvement with clients in the course of rendering services, as well as a dedication to high quality service to the client” (Norris & Niebuhr, 1984, p. 50). As part of an auditor’s professionalism, ethical behaviour plays a critical role in defining “what is best for the clients.” Schlachter (1990) adapted the Hunt and Vitell (1986) model of ethical consideration and constructed the auditor’s code of conduct to influence the decision-making process. Influences such as personal background experience, organisation expectation and professional values will determine how an accountant will act. This paper emphasises that, in regard to ethical conduct, standards of competence, independence, objectivity and integrity must be maintained. Other research into ethical development has found significant relationships between an accountant’s morality and age, gender and education, as well as organisation and professional expectations (Jones & Hildebeitel, 1995).

Ethical development is also connected to cultural context and behaviours. A person’s ethical perspective is affected by the degree of cultural factors such as religion, legal and political systems (Jeffrey, Weatherholt, & Lo, 1996). These values are closely connected to other

commitments and social groups. National culture, on the other hand, has also been used when comparing accounting behaviours. In most cases, the measurement of cultural context varies across studies, which gives a clear indication on the need for careful scrutiny when comparing studies. Roxas and Stoneback (1997), for example, investigated cultural dimensions based on Hall's model of a high or low context of culture. They found that in terms of ethical beliefs, high level context countries such as The Philippines, Thailand, China, Ukraine and Moldova, are significantly different from those in low level countries such as USA, Canada, Australia & Germany. Jeffrey, Dilla, and Weatherholt (2004) examined the ethical behaviour of Taiwanese auditors and their attitudes towards rule-directed behaviour and a code of conduct. They revealed that the Taiwanese auditors are influenced by the value of collectivism, where they would compromise violations of ethical standards when dealing with friends rather than relatives.

These studies have a common motivation: to investigate ethical behaviours in a causal-linear relationship. The problem in understanding the cultural context by linear causality is that it is static and oversimplified: the nature of cultural norms requires a dynamic process of interpretation and reinterpretation, and one may not possibly gain an in-depth understanding (Baskerville, 2003, 2010; Bate, 1997). It is believed that the ethical development of man is a process of shared human learning and adaptation in a social context and thus this study cannot be seen as simply a "snapshot". A more comprehensive analysis is needed to illustrate the ethical development of an auditor in a particular country.

#### *2.2.3.5. Professional commitment*

Professional commitment can be inferred as dedication to the work and the long term career aspirations of the professional. Commitment may indicate the belief and acceptance of the profession's goals and values, a willingness to exert effort on behalf of the profession, and a desire to maintain professional membership (Porter, Steers, Mowday, & Boulian, 1974). Accountancy, as a profession, is bound to such commitment to itself, its clients and the organisation. However, professional commitment often conflicts with organisational commitment; accounting professionals are influenced by authority by expertise while an organisation responds to authority of hierarchy (Aranya, Pollock, & Amernic, 1981). Studies of professional commitment in accounting are mostly conducted in order to discover causal

relationships of commitment with other variables. Some examples vary according to commitment and industry settings (Hastings & Hinings, 1970), organisational versus professional commitment (Aranya & Ferris, 1984; Aranya *et al.*, 1981; Gendron, Suddaby, & Lam, 2006), and professional and organisational identification (Bamber & Iyer, 2002; Norris & Niebuhr, 1984).

#### *2.2.3.6. Professional identification*

Kerr *et al.* (1977) defined professional identification as the use of the profession and fellow professionals as major referents. In relation to auditors' behaviours and their attachment to a firm's organisational culture, several studies have contributed to how accounting firms are shaping auditors' identity. As part of audit professionalism, identity is strongly related to the professionalisation of accounting, which refers to the relationship among accounting firms, regulations and professional bodies (Cooper & Robson, 2006). The accounting firm is one factor playing a central role in the development of an auditor's identity (Anderson-Gough, Grey, & Robson, 1998) which includes the construction of auditor 'good' behaviours, and attitudes towards servicing clients (Anderson-Gough, Grey, & Robson, 2001). A study by Grey (1998) explained that the word 'professional' is connoted as an auditor who is able to conduct him/herself as a well-behaved person, rather than consider his/her technical knowledge or to possess certified accreditation. He argued that in order to become 'professional', an auditor needs to be aware of the social relations to other colleagues as well as to the firm.

An informal communication and mentoring amongst auditors, for example, exists in the way they establish networks, which complements the formality of structural order and auditor guidance (Dirsmith & Covalleski, 1985). Such subjective and informal assessments by peers as colleagues may affect the way an auditor must appear and behave, especially in front of their clients (Cooper & Robson, 2006). Having been employed in one of the big accounting firms, irrespective of their distinguished organisational values, auditors are exposed to behavioural performance such as ways of acting in front of clients, appearance matters, dress and personal grooming (Anderson-Gough, Grey, & Robson, 2002). Moreover, behaviour is important, such as ways of talking and writing, as well as time management, eagerness and other forms of attitudes, and are displayed by most apprentice auditors. Thus, auditors apply prototypes

learned through extensive training and experience to a series of complex situations delivered by their organisation and will generate such behaviour that represents the grandeur of the Big-4 accounting firms (Anderson-Gough *et al.*, 2001).

The six dimensions of professionalism explored above are expected to reflect attitudes to audit professionalism in a detailed manner. Exposure to external norms and values derived from the institutional field may strongly influence audit behaviours, as stated in some of the literature cited above. The auditor as 'actor' can be observed from the inner as well as from the outer self. Some areas of study relate to auditor's ritual engagement of financial statement audit (Pentland, 1993), auditor's social construction as a result of product legitimacy (Herrbach, 2001; Power, 1997, 2003) and understanding auditor's independence in a particular country (Hudaib & Haniffa, 2009; Sucher & Kosmala-MacLulich, 2004). Thus, this section has provided evidence of research on how auditors adjust their attitudes based on the particular cultural environment, background, or institution.

#### ***2.2.4. Issues in the Accounting profession: a professionalism paradigm shift***

It is not surprising that professional organisations, including accounting firms, are experiencing considerable changes due to the external environment. Brock (2006) emphasised external factors such as deregulation of professional markets and increased competition, financial constraints and cost pressures, changes in government policy and technological developments. As mentioned by Abbott (1988), professions are shaped by jurisdictional constraints, which give such privileges to undertake specific specialist and expert tasks in society. Furthermore, he argues that such boundaries may result in disputes, in which both in local and national practices may clash. In turn, he recommends the value of future investigations from both a historical and sociological point of view, to understand jurisdictional disputes in order to reveal an impetus and pattern to organisational developments, in a case study setting. Thus, in order to understand the accounting profession in a particular country, one must place these disputes in a larger context, and to consider the profession as an institution, and its external and internal environments.

Another issue pertaining to the profession is the emergence of consulting divisions in accounting firms in the '80s and '90s has led to the movement from the widespread concept of professionalism of accountants to a commercialised, hegemonic type of firm (Wyatt, 2004). As such, auditors are expected to face uncertain behaviours as to how they perceive their clients, this ambiguity being due to economic interests within the profession (Kosmala & Herrbach,

2006). As Brock (2006) illustrated, there has been a shift of paradigm, whereby accounting firms shifted their audit services into multi-services professional networks.

Thus nowadays, almost all international accounting firms are believed to rebrand themselves into business services or advisory firms. This has increased the scepticism of audit professional behaviours, which are suspected to have deteriorated due to these changes. As a consequence of diversifying its division into a non-accounting nature, more non-accountant executives have entered the firms and possess little or no understanding or appreciation of the level of accounting engagement (Wyatt, 2004). The shift of such paradigm - from professional or fiduciary logic to commercialised or corporate logic - is further encapsulated in Chapter Four.

This section justifies a number of factors influencing the attitudinal degree of auditors' professionalism. In general, a profession's jurisdictional claim can be influenced by at least to major external powers: "the rising amount and complexity of professional knowledge, and the new types of legitimacy claimed for that knowledge" (Abbott, 1988, p. 177). Hence, in an auditor's environment the main influences on auditor independence, ethical behaviour and judgements are socio-economic and cultural and institutional diversities. Country-specific, political, economic, and social structures are some external factors that underpin such institutional changes in attitudinal audit. Research in attitudinal attributes of the accounting professional has been less appreciated, especially when discussing the historical account of auditors' behaviour, cultural backgrounds and institutional logic in accounting firms. This is particularly appropriate when scrutinising developing countries. Recent studies have focussed heavily on the Western accounting professionalism, ethical behaviour and the auditor's degree of independence. To some extent, the characteristics of a nation's values and norms are believed to contribute to a significant relationship, but further analysis of these values and norms is needed. There is also little research as to how local auditors may have to adapt to the culture possessed by the Big-4 firms, and the extent to which the history of professionalisation in a particular nation is affecting behaviour. The business expansion of the Big-4 in certain countries in Asia is expected to have a significant impact on the locals' professional judgements, identity and perception of independence.

### **2.3. Recent Studies in Professional Accounting in Developing Countries**

This section further illustrates the two important aspects of structural and attitudinal aspects of the professional accounting in the developing countries. The country-specific aspects are

pertinent for this study, in order to understand salient findings and development of accounting issues. Both structural and attitudinal aspects are delivered respectively in separate sections. In addition, the extent to which the Big-4 firms contribute to the dynamism of such development is included in another section.

### ***2.3.1. Structural Aspects of Professional Accounting Bodies in Developing Countries***

Studies of accounting professional bodies in developing countries have taken into account the importance of connecting the historical context of former colonial influences in a structural perspective. Scholars such as Poullaos and Uche (2012) investigated the development of professional accounting bodies in developing countries. Their main argument was that developing countries are heavily influenced by their former British governance, including the process and modes of professional associations. These developing countries are believed to have deviated from those of the Anglo-Saxon countries. As described by Poullaos (2009), countries such as Trinidad and Tobago, Jamaica, Kenya and Nigeria possessed their own sophisticated processes which inevitably differed from the older UK bodies. Furthermore, Poullaos and Uche (2012) argued that recent studies of accounting and developing countries mostly relate to the influence of British accounting systems. One reason is that Britain and its former colonies possessed a well-documented history of their accounting.

It is believed that the British Empire brought its (British) accounting and bookkeeping methods to support activities of commercial and production businesses in the colonised countries. The programme resulted in little space for the locals to participate in the accounting sector. Factors such as status, hierarchy, barriers of race, language, education and cultural background are some of the obstacles the locals had to face, and these also hindered the development of local accountants. In common, these countries shared the same problem: inadequate numbers of local practitioners, lack of adequate training and knowledge by the local profession, and lack of capacity in local accounting firms to accommodate national demands (Poullaos & Uche, 2012).

In some African countries such as Nigeria, the profession of accounting has also been influenced by political, social and economic environments. Uche's (2002) study of accounting development in Nigeria illustrated that the development of political rule from military to democratic has led the Nigerian accounting profession into a dynamic process of change. The Institute of Chartered Accountants of Nigeria (ICAN) has had a complex development due to constant interference by the military since its independence in 1960. Since then, the government has been ruled by six different military regimes (Uche, 2002). As such, the

management of ICAN has been in a conflict situation, where some of the members were relentless in their efforts to gain control over the institution. One of the reasons is because under the Act of 1965, only ICAN members could be appointed as certified auditors in Nigeria - despite the fact an auditor could be an international qualified professional member. Hence, the profession becomes a major monopoly institution, supported by the current state, to govern the profession. This resulted in some discontented accountants forming a counter-organisation, namely the Association of International Accountants (AIA), in order to support those who possess international qualification but are unable to comply with ICAN. Since then, the two bodies have become rivals in gaining influence from the ruling government. Countries with political instability generally influence the development of the profession and in some cases, permit a monopoly in the field.

Annisette (2000) investigated the professionalisation of accountants in Trinidad and Tobago (T&T). She found that the development of the accountant profession was heavily influenced by the British accounting system, promulgated by the Association of Chartered Certified Accountants (ACCA). During the development stage, there was a domination by the British professional body which collaborated with the local accounting elite to marginalise the local accounting body. Moreover, the history of T&T was structurally derived from slavery, indentureship and immigration, which consequently affected the business and accounting preferences favouring the non-Afro and indigenous T&T (Annisette, 1999). In the mid-20th Century, the accounting professionalisation established professional education, examination and certification, endorsed by ACCA. Along the way, the elite accountants controlled the majority of accounting professionalisation, which diminished the role of the local universities. The tension between local universities and the professional body is somewhat similar to the formation of the British university and accounting bodies in the UK. Such anomalies, as Annisette (2000) argued, are common to most Commonwealth nations. In such cases, the interest to adopt the Anglo-Saxon accounting system is mainly to service multinational corporations for investment purposes in designated countries, rather than to accommodate the country's needs. Furthermore, the profession appeared to have a clear intention to marginalise indigenous accountants, as well as local universities, and make all accounting training and certification dominated by the British accounting bodies. As such, the domination of the British certification allows both foreign and local accounting graduates to pursue such accreditation to gain status in the society.

Similar to Trinidad and Tobago's development of accounting professionalisation, Jamaica was another of the British colonised nations. Bakre (2010) investigated the relationship between Jamaica's accounting professionalisation and the influence of imperialism in 1962. He found that since the 17th Century, British accountants dominated the region to manage the capital and business transactions. The long rule of empire led to the influence of accounting professionalisation of Jamaica. However, there was an exclusive treatment between the British and the local accountants in joining the accounting education programme. After independence, the Jamaican government and local accountants joined forces to establish a local accounting profession. One particular issue for that development was the conflict of cultural identity, where the internationally qualified local accountants dominated most important positions. This group of accountants forced the implementation of the British education systems which eventually did not align with the socio-political and economic development. Moreover, their interests in establishing a 'miniature Britain' in Jamaica are served by maintaining the capitalist transnational ties (Bakre, 2010).

Yapa (2006) studied the accounting profession development in Sri Lanka, where he found that, as a former British colony, the involvement of British accounting standard is relatively high. The local professional body; the Institute of Chartered Accountants of Sri Lanka, endorsed by the Sri Lankan government, developed the profession based on the UK standard. According to Yapa (2010), there were two competing groups of accountants: the 'elite' accountants who possessed British accounting qualifications, and the 'non-elite' local universities-graduated accountants. There has been competition between the two groups in terms of bringing power to the accounting society, which also related to the international accounting body: the CIMA/ACCA and the local bodies in relation to overall governance of the profession. Yapa (2006) argued that the international bodies tend to represent the interest of supplying accounting labour as required by foreign companies, while the local body insists on securing the public accounting interests. The Sri Lankan local professional bodies are not treated as equals to Western professional bodies, although they have the capacity to create an accountant of similar international competency. Further investigation by Ukwatte and Yapa (2013) showed that discrimination towards the local accountants was evident and only the rich families could afford to acquire the British accreditations. There is, however, little study in that country of how such discrimination affects the professional behaviour and independence of the



accountants/auditors, but the marginalisation issue continues to contribute to the public distrust in local auditors.

Susela (1999) studied the tension amongst the Malaysian accounting professions and political interests in regard to the development of accounting. Conflict existed between the Big-6 (now Big-4), the smaller accounting firms, the CPAs and the non-CPAs. The local governing body, namely the Malaysian Association of Certified Public Accountants (MACPA) provided technical guidance and examination settings. This body was heavily influenced by the UK and Australian chartered accountants and with full support from the local CPAs and the Big-6, the professional body governed accountants. However, there was a conflict between ACCA and the Australian Society of Accountants (ASA), during which ACCA argued that they had little support to join MACPA's examination. The conflict of interest continued until the disgruntled members formed another body, called the Malaysian Institute of Accountants (MIA). In turn, during the development of these bodies, it became clear that the formation of either MACPA or MIA was more due to a political reasoning, in order to gain influence for the state and profession. One factor which underpinned that development was the involvement of ethnic organisations such as the United Malays National Organisation (UMNO) and the Malayan Chinese Association (MCA) which contribute to the economic development and thus influence the accounting standard setters. The MCA, in particular, forces the government to balance between the public and private sectors, providing more free enterprise in commerce and industry (Susela, 2010). The political and business interests seem to dominate such tension and dispute from the associations, which Susela (1999) described as "to protect client interests and big corporations". Although Susela (1999, 2010) did not mention explicitly the extent to which the audit behaviour is affected by such conflict of interests, it is obvious that the auditors' standpoint is subject to various debates between the two professional bodies, both technically and politically.

### ***2.3.2. Attitudinal Studies of Professional Accounting in Developing Countries***

There has been an increasing interest in the study of attitudinal aspects of audit in developing countries. The trigger to this is that accounting, both technical and institutional, requires further scrutiny when it is exposed to different settings in the institutional field. Studies of accounting professionalisation in the Southeast Asian region have been conducted in countries such as Brunei Darussalam, Malaysia and the Philippines. In countries which are better resourced such as Brunei Darussalam, Yapa (1999) investigated the professional accounting environment with

respect to its economic, social and political structure. One of the richest nations in Southeast Asia, Brunei is considered stable and orderly, both politically and economically. The country is ruled by a Sultanate monarchy, where policies and economic controls are within the Sultan's authority. The members of the Cabinet have less accountability to society as they too have close family relationships to the Sultan. As such, the professional body of Brunei – BICPA - has little influence to control the development of accounting professionalism. The public sector dominates the region, with government accountants serving the state's agencies and ministries. According to Yapa (1999), the BICPA does not provide a strong development programme for Bruneian accountants and has little influence as a professional body to contribute to the economy. In turn, the Bruneian professional body is less respected and less valued, since audit licences are endorsed by the Ministry of Finance.

Given that environment, it seems that the accounting professionalisation in Brunei has not developed into an autonomous mechanism. The government accounting system plays a significant role in society, and the accounting function is mainly ruled by the Ministry of Finance. The over-controlled state has forced Bruneian accountants to follow bureaucratic processes and thus become less independent. This environment is similar to the condition of nations dependent on single major natural resources such as oil and which are ruled by an autocratic Kingdom or Sultanate regime. Hudaib and Haniffa (2009) argued that in this type of nation, such as Saudi Arabia, the accounting professionals are less respected and the independence of the profession is questioned due to political influence. The definition of audit independence in this sense becomes diverted and tends to serve as 'doing what is best for both parties.' Although the Bruneian accounting profession was strongly influenced by the British accounting system, the different political situation with its Western counterparts hinders the development of the accounting profession.

Dyball, Poullaos, and Chua (2007) examined the development of the Philippines accounting profession and the resistance of local accountants towards imperialist drivers. The Philippines were previously colonised by two nations; Spain and the United States. The former nation occupied this island group for over 300 years, while the latter took over in 1898. Act 3105 of the Accounting Law in 1923 reflected local resistance to American influence and administration. The Filipinos strived to gain confidence to be self-governing and sought also to govern the practice of public accounting in the Philippines. This caused tension between the

American-based accountants, protecting their interests in the country, and the attempts by local accountants to regulate their own professional qualifications.

Unlike the Bruneian accounting profession, the Filipino accounting professionals have had more opportunity to develop their profession with less interference from the government. The accounting community in this country has more power to establish a self-regulated profession and it shows that the influence of the former colonisers can be diminished. The passing of the 1923 accounting legislation marked the beginning of 'professionalisation-as-resistance'. This indicates that accounting professionalisation can be more concerned with a struggle towards independence, rather than to bow to government interference. Hence, the political power shift between the Americans and the Filipinos is a key factor of the development of the profession.

The Filipino accounting profession was also strongly influenced by the local culture. Dyball and Valcarcel (1999) investigated the effect of the traditional and familial culture of Filipino accountants regarding justifying a regulatory framework for financial reporting. A local audit firm which was found guilty of ethical misconduct towards its client was not charged by the profession. This confirms that the family culture embedded in society reduces the application of strict regulation in the Philippines accounting standards. As such, there seems to be a conflict between kinship networking and the legitimate law of accounting profession. Although the accounting law in the Philippines is very clear, the implementation on the ground is weak or only partially enforced. Furthermore, Dyball and Valcarcel (1999) argued that the nexus between the rational regulatory framework and the traditional culture generated two competing sources in the accounting society. This gives an ambiguity to the term 'professional' in the Philippines accounting profession.

Should the Philippine accountant continue to present himself as impartial, independent and competent, that is, as a "professional" in "Western" terms? We accept that as organised groups, accountants will seek to translate their intellectual resources into economic and social rewards. We accept that they will try to deflect any attempt to erode their acquired privilege to regulate their ranks. We accept that they may serve the needs of their clients. But is the Philippine accountant a "professional" in "Western" terms? (Dyball & Valcarcel, 1999, p. 319)

The materials above demonstrate various manifestations of professionalism presented by auditors, in relation to their behaviours in different nations. The variation of accounting professionalisation has a strong correlation to the institutional field that the auditors are placed within, which includes national and organisational cultures. The attitudinal aspect is a dynamic

mechanism that forces auditors to adapt and perform accordingly, based on current norms and values, in order to obtain legitimacy in the accounting and business societies. Furthermore, in order to generate an in-depth understanding between the audit structural and attitudinal aspects, this study must adopt an apparent indicator and proxy of audit professional attributes.

### ***2.3.3. The Involvement of the Big-4 Accounting Firms in Developing Countries.***

The Big-4 accounting firms is the term used to describe the four largest international accounting firms that provide an extensive range of accounting and auditing services, which include audit, taxation and consulting management, corporate finance and legal services. In the early days, the original purpose of an accounting firm was to handle and audit a client's financial report in order to provide reliable information for investors and shareholders. It is a form of partnership made by two or more accountants to establish a formal entity. Each partner performed audit practices, with full authority to undertake audit services. Such practices have converted their traditional ways of working into business-like and more managerial and 'multi-service type' organisations (Baskerville & Hay, 2010). Brock (2006) illustrated a well-documented paradigm-shift, evidenced by structural changes in an organisation, whereby accounting firms have shifted their business associations from a local-oriented firm to the Global Professional Networks (GPN) type of enterprise. These structural changes may be caused by external factors such as professional market deregulation and competition, financial and cost constraints, government policy changes, globalisation of the client's industry and changes in technology in accounting practices (Brock, 2006).

Moreover, the orientation of GPN enterprises has become a 'global culture', in that accounting firms are perceived as the vehicle to accommodate capitalism and international profit-making (Sikka, 2008). However, the partners of these increasingly global firms embraced this willingly. As a result, management structures, functions and systems have also changed; accountants have had to face a possible conflict between the ethical standards of their profession and providing an accounting service, as well as meeting the obligations of their firm's targets in the globalised form of business service firms in the last 30 years.

Studies of the image of the Big-4 firms have been conducted for 20 years, and the spirit of bringing the neo-capitalism doctrine is evident. In Europe, the Big-4 firms penetrated the local market as a result of international demands and economic expansion. In the case of Sweden, Wallerstedt (2001) illustrated that this demand was due to the increasing number of Swedish clients which had internationalised their businesses and local partners required an international

affiliation. The inflow and outflow business expansion from and into Sweden provided partnerships with Ernst & Young, KPMG, Deloitte & Touche, and Arthur Andersen. The paper concluded that the early penetration of the Swedish market by the large international firms was more successful than that by local accounting firms in this nation. At one stage, the partnerships seemed to be doing well in the market and interestingly, without interrupting the existing market of the small firms. On the other hand, the role of the Big-4 firms in Sweden has less effect upon the professional association and local policies; instead, they prefer to follow their own committees and research groups (Wallerstedt, 2001). Other European countries, such as the Czech Republic, experienced different perceptions of the Big-4's expansion. Sucher, Moizer, and Zarova (1999) indicated that the Big-4 firms have a better image compared to the local accounting firms due to different market and client orientations. However, that paper did not explain the concerns of local accounting firms for their market in the Czech Republic.

The spirit of GPN continues to expand its market into some developing countries to ensure their reputation as world-class accounting firms and to maintain their profitable accounts. Recent attention to business in developing countries by such large firms is seen as directly related to the need to continue to enlarge the revenue base, seen as static in the biggest capitalist economies. This can lead to conflict between the GPN that underpins capitalism and the local environment of political, socio-economic and local staff behaviour. One example is that local partners often face a dilemma in trying to develop or mentor their local partners and staff careers, while their performance is judged by the standards of those expatriates in higher positions. To some extent, the GPN in the major accounting firms has been perceived as an anti-social practice towards the host country with an inclination towards increasing fees and profits.

The connection with other countries for business and market expansion allows international accounting firms to establish networks between entities nationally and internationally. The term GPN underpins the newly-formed entity, emanating throughout the world, including those of developing countries. In developing countries' perspectives, international accounting firms may have certain agendas in developing their market by improving the status and abilities of local accountants, while maintaining their interest of commercial business in a particular nation.

There has been a positive contribution from having Big-4 firms in developing countries, particularly in delivering international standards of accounting and auditing functions. In

general, Cobham and McNair (2012) argue that the Big-4 involvement in developing countries is to transfer technical and knowledge expertise. On the other hand, the need for international qualified auditors is increasing, particularly in countries which accept foreign investments and multinational enterprises. In China, for example, the need for Big-4 accounting firms is attributed to three drivers:

- (1) More than 200 of the world's top 500 companies have invested in China since 1993.
- (2) China has been the second largest foreign direct investment recipient after the US.
- (3) The intention to gain membership in the World Trade Organisation (WTO) and other international trading affiliations (Yapa and Hao, 2007).

The reasonable argument underpinning the entry of the Big-4 accounting firms provides a relatively clear indication that the main purpose for having these service entities is to accommodate the needs of foreign investors and the global business environment. Few studies confirm the notion of having these firms in the developing countries as a result of domestic market expansion or a deliberate intention to develop the accounting profession. In many cases, the latter reason seems to be treated as a 'by-product' of the overall purpose of the Big-4 occupation in these countries. On the other hand, studies by Uche (2002), Yapa and Hao (2007) and Yapa (2010) indicate that the Big-4 provide little assistance in addressing local and domestic business interests. Some consequences lead to a conflict of interests between professional bodies supported by the Big-4 firms and other local bodies, or the interest of a monopolising accounting institution endorsed by the Big-4, or barriers to entry by the Big-4 firms leading to heavy requirements being imposed on local accountants.

## **2.4. Conclusion**

This chapter has elaborated on two aspects of professional accounting in two different perspectives. The combination of the structural and attitudinal aspects serves as a basis for a professional model (Hall, 1968, p. 93). The structural aspect illustrates some of the accounting development based from the history of accounting bodies in several nations, and the impact of Western imperialism, particularly of the British Empire to its former colonies. The Dutch accounting profession was introduced in order to illustrate its historical influence upon the Indonesian accounting profession. Much of the literature demonstrates the Western accounting systems to be the primary factor in the development of accounting in developing countries. Others have argued the main purpose is to maintain Western interests for economic motives.

Overall, this literature provides useful insights to understand the sequential accounts reflected in each of the respective nations.

On the other hand, the attitudinal aspect serves as the 'soft-skill' of accounting. The section represents the development of an auditor's views in relation to his/her technical knowledge, as well as the socially-constructed behaviours affected by the institutional field. The presented literature provides a notion that accounting firms have a greater contribution to shape auditors' behaviours and that they are likely to represent the 'face' of these firms. Accounting firms are considered as an auditor's 'safe haven', in terms of technical skill development, social construction, and forming identity.

This section described the contribution of the literature to this study. In order to support the provided research question - the extent to which values of the global professional network (GPN) and Indonesian national cultures are affecting the manifestation of accounting professionalism within the accounting firms - it is essential to determine an appropriate background of research. Below are implications of the literature for this study. Firstly, there is a strong indication that professional accounting bodies in developing countries are heavily influenced by the former colonial nations. In these terms, most former British colonies are affected by the British Empire system. The long rule of the empire formed close relationships between the coloniser and the colonised nations. In most respects, the business and educational sectors can be said to be a continuous pathway from the British Empire systems into the modified, self-regulated systems in the former colonised countries.

Little research has been done in these nations which may have different developments in terms of political, social and accounting profession development. Hence, this study provides a different perspective of history, compared with the domination of the British Empire over its colonies. The international professional bodies such as the British ACCA and CA programmes, have led most of these countries to acclaim these accreditations in order to gain adequate knowledge and training as required by international standards. Many local professional bodies join forces to upgrade local accountants and, for some reason, derailing the interests of domestic needs. On one hand, most of these accreditations have sufficient requirements to compete and comply with the Anglo-Saxon accounting systems and enable them to become the 'password' for entering the Big-4 accounting firms. On the other hand, the scepticism about following local accreditation and examination is gradually increasing within these developing countries. Hence, there is a degree of untrustworthiness in the local context, as opposed to

international accreditation. In some cases, however, these accreditations may not be the essential solution in accommodating domestic needs. Further studies in this field may enhance the need to deliver such accreditation in a local manner.

Secondly, the international accounting firms, with their spirit of international professional networking, have provided a blunt illustration that these forms of entities represent a new imperialism of accounting harmonisation. Although in general, the involvement of the Big-4 increases the capacity of the local accountants' quality of auditing, the extent to which the Big-4's proposal to consider the domestic needs is less considered. As Poullaos and Uche (2012) argued, facilitating small and medium enterprises is one necessity that the Big-4 often disregard. Another issue is whether developing countries should be forced to adopt a universal accounting model which may not be appropriate to certain settings in a particular country. Hence, this factor is one obstacle that many developing countries need to address.

Thirdly, there have been several arguments about the importance of understanding political, social and economic circumstances in a particular country. Such factors influence accounting professionalism in different countries and produces divergent patterns. Nonetheless, research in attitudinal aspect of audit professionalism is less appreciated when connected to resource mechanisms, and a country's history and characteristics. Research by Yapa and Hao (2007) illustrated the influence of political, economic, and cultural factors that prevail or even hinder the adoption of accounting systems. In turn, it becomes apparent that behavioural studies of accountants are imperative: these allow an in-depth understanding of the 'real' situation faced by members of accounting associations. By revealing the current actor's perspective, a definite interpretation of a country's accounting profession can be developed through time. Tensions, conflicts or even *coups d'etat* within a particular country may be revealed, which are not evident in the Anglo-Saxon countries. Moreover, appropriate attributes to determine audit professionalism, as offered by Kerr *et al.*, (1977) is needed to grasp further understanding of auditors in a country-specific accounting firm. In sum, by allowing political, economic, and cultural factors as overarching lens, it becomes clear that the development of the accounting profession between the Anglo-Saxon and developing countries are different.

Lastly, in relation to understanding local accountants' needs, there has been little research that describes the behaviours and attitudes of such exposure. Current literature has flourished in the dimension of professionalism development, exposures to the Big-4 international norms and values and perception to independence. Different exposure of the international accounting



standards may result differently across nations based on a nation's cultural characteristics. In general, there have been numerous studies of cultural consequences based on Hofstede's (1991) cultural dimensions when comparing one country to another. These dimensions, namely power distance, individualism vs collectivism, masculinity versus femininity, uncertainty avoidance and long-term versus short-term orientation, are simplified and indexed to all respective countries in an orderly manner. Nonetheless, as a consequence of simplification, the measurement fails to comprehend how one Asian country's collectivism is different to another Asian nation. As such, this study assumes a uniqueness of cultural manifestation in each country without any inclination to compare it with other similar jurisdictions. In fact, this uniqueness of culture may enrich the notion that every country has its own characteristics which most literature to date has failed to acknowledge. The expressions of local accountants may contribute to understanding their attitudes and behaviours in a particular country which is central to this research.

## **Chapter 3**

# **Indonesia's political and economy, socio-cultural, and accounting profession**

### **3.1. Introduction**

This chapter elaborates on the history and development Indonesia's political, economy, socio-cultural and the accounting profession after independence. The chapter begins with Indonesia's political development and its relationships to presidency characteristics and policies. An overview of each regime would be expected to portray the political developments and its influence on economic policies and social behaviour. The second part describes core characteristics of Indonesian society. The section describes the rich foundations of Javanese culture; a culture that is considered dominant and carries considerable influence on every aspect of Indonesian society. The last section describes the development of the accounting profession, which enables an understanding of obstacles and atmosphere of professionalization of accounting in Indonesia.

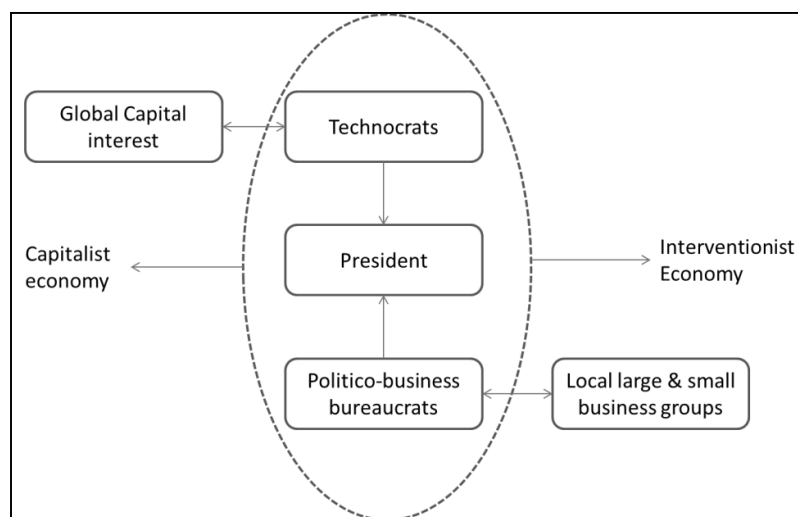
### **3.2 Political Economy**

Since independence in 1945, Indonesia has been characterised as a nation enriched with a large population, ethnic groups, religions and cultures. The first president, Sukarno, was one of the most influential people to unite and establish the nation after the rule of the Dutch and the Japanese empires. Similar to other founding leaders, Sukarno faced several challenges to form good governance. Subsequent to independence, the country adopted a presidency system, with a strong political role from the military (Cassing, 2000). In 1950, the constitution was replaced by a parliamentary system of government, but eventually did not represent the people's will. Therefore, Sukarno decided to return the constitution to the style of the 1945 presidency with Pancasila<sup>5</sup> as a national philosophy. In 1959, the system changed to a Guided Democracy, leading to an ideology balance between nationalists, religions, and communists (NASAKOM). The presidency has led the economy with a centralised government policy, which created high national debt, inflation and lower economic growth. The situation was worsened by the fact the people were not satisfied, and this caused riots and civil wars in most of regions. It was not until 1965, when Suharto engineered a military coup in order to restore order and stabilise the country (Cassing, 2000). Sukarno's era of presidency was seen as the 'old order' of Indonesia.

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<sup>5</sup> Pancasila is the official philosophical foundation of the Indonesian state, which means "five principles".

Suharto, as the successor to Sukarno, introduced a new concept of government, which brought the constitution back to the presidency and gradually opened the economy to foreign capital investment. This was to restore the stability of political and economic conditions, subsequent to hyperinflation and severe poverty. One of his strategies to overcome these obstacles was to eliminate political rivalry and competition, and force a sole Pancasila ideology in every sector in Indonesia (Cassing, 2000). His own military background influenced the character of his presidency by allocating some of the important positions, such as ministries and municipalities, to military personnel. During his first five-year presidency, there were two groups that influenced his government policies and strategy; the technocrats and the politico-business bureaucrats (Irmawan, Haniffa, & Hudaib, 2013). These groups had different points of view in terms of how the country should be administered. On one side, the technocrat wanted to open the country's markets and economy, and encourage foreign investment; while on the other side, the politico-business leaders tended to protect their interests and prefer an interventionist model of economy. Figure 3.1 illustrates the tensions between the technocrats and the politico-bureaucrats and their ideologies to influence the government. Suharto decided to open the market to foreign investors, which eventually boosted the economic growth and allowed foreign capital inflows; but he also continued to support bureaucracy and domestic capital interests which maintained his power.



**Figure 3.1. Interest groups under the New Order**

Source: Irmawan, Haniffa, Hudaib (2013)

However, the length of Suharto's regime for over 32 years, created many negative effects in the political and economic environments. The prohibition of political competition allowed the

government to be centralised around Suharto's orders, along with the close connections of the military and local conglomerates. A tendency to monopolise every business sector was apparent, and this situation created corruption and cronyism. Cassing (2000) emphasises the danger of having a sole political authoritarian ruler.

... Suharto eliminated political competition and that in particular allowed for the creation of a mercantilistic economic environment akin to 16th Century England and France. Macroeconomic stability and markets were embraced in order for the economy to grow so as not only to give the government legitimacy, but also to enlarge potential monopoly rents, which were then used to enrich strategically important allies and, eventually, family members. (Cassing, 2000, p.160)

Consequently, the 32 years of the regime created high level of bureaucracy in both political and economic contexts. As a rich country of natural resources, oil and tropical agricultural products, Indonesia was controlled by some small business groups and conglomerates that were tied to Suharto's political party and his family. Irmawan, Haniffa, *et al.* (2013) describe Suharto as the model of a politico-business coalition, surrounded by powerful conglomerates (both Indo-Chinese and <sup>6</sup>*Pribumi*) and providing abundant access for his family business. His policy has thus moved Indonesia into a hybrid economic management, offering the concept of market liberalism while maintaining coalitions with the domestic conglomerates.

The formation of Indonesia's national culture is believed to be political in origin. The rhetoric of 'unified Indonesia' was purposed to transcend political and class interests and to express the essential character and consequences of Suharto's "New Order" rule (Pemberton, 1994). The political reasons for this were to maintain social stability and a steady state. Moreover, the jargon of cultural unification are expressed and explained by referring to 'traditional values', 'cultural inheritance', or 'origins', and 'ritual'. Thus, in order to achieve such goals, political events and actions, like elections, are styled as ritual and ceremony. The terminology of social order was also based on the traditional concept of the Javanese, which is not surprising given their dominance in Indonesian politics (King & Wilder, 2003). Under both the Sukarno and Suharto presidencies, the domination of Javanese culture is apparent, as Javanese uphold collective harmony, unity, loyalty and patronage systems (Irmawan, Hudaib, & Haniffa, 2013). Thus, the 'national culture' is regarded as a unified nation symbol, represented by the slogan *Bhinneka Tunggal Ika*, unity in diversity, and five pillars of *Pancasila* ideology. According to

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<sup>6</sup> Pribumi means literally 'Sons of the Land'

Freedman (2003), these symbols were used to promote assimilation, which were dominated by Javanese to support Suharto's regime.

During Soeharto's new order regime, any ethnic-based parties were banned and those wanting to be involved in a political party had to join one of three of the indigenous-dominated parties. Moreover, since the downfall of the communist party, Soeharto's government accused ethnic Chinese, as a group, of being communist sympathisers and hence many new regulations were used to discriminate against them. "The New Order regime systematically and consistently limited, pressed and crushed the political rights of ethnic Chinese by promulgating discriminative policies in order to expel ethnic Chinese from Indonesia..."(Winarta, 2008, p. 62). The consequences were severe, such as prohibiting the use of Chinese characters and the banning of Chinese newspapers; closing Chinese schools, limiting the celebration of the Lunar New Year; and the changing Chinese names into Indonesian. These programmes were meant to accelerate ethnic Chinese assimilation, to become more "Indonesian" and to attempt to suppress Chinese identity. As such, those born and brought up during this period were educated primarily in Indonesian schools and apparently lost the command of the Chinese language. Suryadinata (2001) argued that the regime has had a major impact on their political orientation and behaviour. Many of them fear to be outspoken as Chinese, *peranakan* or to display any form of ethnic Chinese attributes and instead, preferred to be Indonesianized (p.505). Moreover, the programme also purposed to suppress ethnic minorities such as the Indonesian Chinese in that they were mandated to use *bahasa* Indonesia, changing their names into Indonesian and forced to close any Chinese schools. As such, the national culture in Indonesia is less likely to accommodate plurality of ethnicities. Thus, there is the need for a very careful use of the term 'national culture' in Indonesia, in order to contextualize the genuine (albeit political) concept of national culture.

The year 1997 was marked by much turbulence in Asian economies, which eventually affected Indonesian capital and currency markets, with a huge foreign debt (USD 140 billion – about 60% of GDP) (IMF, 2014). The effect of financial contagion that started in Thailand crippled Indonesia's economy and the Rupiah currency fell to its lowest rate ever to the US dollar. US debt thus could not be repaid by most Indonesian entrepreneurs, which created massive bad debt levels throughout the country. As a result, President Suharto announced they would get aid from the IMF in October 1997 in order to restore investor confidence and to restructure after such economic turmoil. It was not until May 1998 that President Suharto stepped down

from government due to numerous riots and massive demonstrations. The country became vulnerable to political and economic disaster and was forced to comply with the IMF requirements. Since then, many banks and industries have been restructured and audited by the Big-4 firms accounting firms, regulations have been improved and the central bank possesses greater autonomy to control financial markets. In turn, the Asian crises had a huge impact on the Indonesian political, economy and social structures, which forced the next presidencies of Habibie, Abdurahman Wahid and Megawati, to decentralise their policies.

In summary, Indonesia's political and economy has fluctuated, heavily influenced by various regimes. Brown (2006) argued that throughout those periods, the relics of Suharto's legacy remained the major factors of Indonesia's political development. High levels of bureaucracy, close connection and family cronyism to the president, and weak legal systems still remain in the society. The establishment of the *Komisi Pemberantasan Korupsi* (Corruption Eradication Commission) as an independent state institution has contributed significantly in diminishing some of these negative norms over the last 12 years.

### **3.3. Society and Culture**

Historically, Indonesian national culture can be traced to the Seventh Century, where one of the biggest kingdoms centralised in south eastern Sumatra was the Sriwijaya Kingdom. This Buddhist-Indian kingdom ruled most of the Southeast Asian region of Sumatra, Java, and the Malay Peninsula. Another empire which existed in the 12th Century was the Majapahit Kingdom; a Hindu-based Javanese and Balinese domination which ruled across the Southeast Asian region to the western part of Papua New Guinea. This kingdom was considered the largest empire in Southeast Asia and Majapahit was eventually used as the basis for the current Indonesian boundaries (Ricklefs, 2001). Centralised in Java, many cultural artefacts flourished, from Javanese traditional literature, dances and ceremonies to architectural landscapes. The Majapahit Kingdom has a significant influence in the history of Java and its cultural heritage, which continues to this day. Some Javanese terminologies are used as a nation's symbol, such as the national coat of arms "Garuda Pancasila" and the national flag's colours of red and white, which were once the Majapahit royal colours. The empire continued until the arrival of the Middle East influence of Islam in the 15th Century.

The first European imperialist power was introduced in Indonesia by the Portuguese in the 16th Century, followed by Dutch colonisation in 1602. The first western trading company to land in

the province of Java was the *Verrenigde Oostindische Compagnie* (VOC) or the Dutch East India Company. This company was the biggest trader of Indonesia's spices and other resources and controlled every part of the nation. Since then, the Western economic and trading systems were introduced to Indonesia and replaced the traditional ones. After the fall of VOC in the 1800s, the Dutch took control of the territory until Indonesia declared its independence in 1945. Then in the mid-20th Century the rise of national emancipation by the Javanese elite began. Although other movements, such as the Islamic '*Muhammadiyah*', took place in the western region of Sumatra and Kalimantan as well as other places in North Sulawesi, the majority of intellectuals resided in Java. Some famous movements or events are as the National Awakening Movement in 1908, Youth Pledge Day in 1928, the birth of Indonesia's educator, Ki Hajar Dewantara, and the advent of Independence proclaimed in Java in 1945. Thus, Javanese, as well as Islamic culture and history have been central to the vigour of Indonesia's quest for independence and development. In order to provide an in-depth understanding, the next section focuses predominantly on Javanese and Islamic values.

### ***3.3.1 The values of Javanese peoples***

Javanese culture, like any other, cannot be separated from the way a Javanese family raise their children. A strong cultural influence reflects how parents raise their children, and this inherently becomes a norm in society. Geertz (1961) explained the roots of social harmony, as being embedded as early as in the first year of infancy. Based on her observations, a mother gently swaddles the baby in a shawl and carries it on her hip so that the infant can avoid harsh vibrations. This treatment causes a passive behaviour for the infant. Moreover, during childhood, a mother will frequently discourage the child from exhibiting poor manners, leading the child to passive obedience. The elder siblings have also the right to scold the younger for any misbehaviour. Being 'pressurised' by the elder siblings is believed to create a passive attitude and increase shyness. Thus, a child learns to convey 'respect' or '*sungkan*' to his/her elder siblings and parents; and the act of behaving passively is carried over to adult behaviour, such 'hypersensitivity' becoming normative to the Javanese. Respect to the elders, in particular, results in the prevalent attitude reflected in Javanese society and is considered as a norm to proper etiquette and to social harmony (Geertz, 1961). The following section depicts two basic principles of Javanese values that are common in social life: Respect and *Rukun* (Magnis-Suseno, 1997).



### 3.3.1.1. Respect

Respect, in Javanese expression, can be defined as a belief that all social relationships are hierarchically ordered, and the moral imperative to maintain and express this mode of social order is a good [act] in itself (Geertz, 1961, p. 147). The attitude of respect is manifested as guiding behaviour in a range of contexts; government officials, children in schools, political parties, amongst neighbours and more. Geertz described that all citizens are perceived as socially unequal, and the customary etiquette patterns are still followed for all relationships of any sort between inferior and superior (p.147). Moreover, the principle to this value is a model of a well-ordered society, in which everyone knows his position in the society, in order to build a harmonious environment (Magnis-Suseno, 1997). It is imperative for a Javanese to observe a counterpart and ask “What degree of respect should I show him?” This means that the person determines the appropriate manner as a matter of etiquette and proper behaviour in each specific situation. In addition, a conversation between Javanese persons may be concerned with a number of distinct ranking systems in society, in which they can address each other in terms of salutation and the level of language. Nonetheless, the ranking system can also depend on people’s sex, age, wealth, and occupation (Geertz, 1961).

The Javanese structural society is strongly correlated with the use of linguistic structure. In order to address how a Javanese person respects others by observing their social ranks, Geertz (1961) said that it is critical to correctly address one unfamiliar person by courtesy. This is related to the use of appropriate language, which not only ensures the person feels unoffended, but also to express distance between the two. In order to understand the level of *hormat* in the Javanese society, one must understand the structure of a Javanese nuclear family and how a person addresses each of the categories with an appropriate language level. Table 3.1 on the next page shows the relationships.

On this basis, the Javanese acknowledge the importance of addressing elder persons in the family, as well as those in the neighbourhood. The most highly respected persons in the family are the grandparents, known as Mbah. The appropriate language to be spoken at this level is called Krama Inggil, which is the highest level of formality in the Javanese language. The next level is the fathers, including uncles: the language category and the linguistic level is known as Krama. Krama Inggil and Krama levels are considered respectful categories and thus requires to be manifested in proper manners in behaving and speaking. The two lowest categories comprise a more familiar or closer relationship which includes older brothers, self

(ego) and younger siblings. The first is commonly treated as same level as ego, although the level of language used is respectful familiarity (Ngoko madya). The last contains the youngest members of the family and the language level used is familiarity or ngoko.

<b>Kin Term</b>	<b>Language Level</b>	<b>Selection of language</b>
Grandparent	High Respect	<i>Krama Inggil</i>
Older uncles/aunts Father/Mother Younger uncles/aunts	Respect	<i>Krama</i>
Older Brother/Sister	Respectful Familiarity	<i>Ngoko madya</i>
Younger Sibling & Child	Familiarity	<i>Ngoko</i>

**Table 3.1. Javanese Kin Term Systems**

Source: Geertz (1961)

Respect among Javanese is a condition where people are not in a mutual, equal relationship. To some extent, respect among Javanese cannot be translated literally into one meaning. Magnis-Suseno (1997) described how, if the Javanese cannot perform the appropriate respect to their superior, the emotion is *isin*: an emotion occurring when a person is unable to show a sufficient degree of respect to their superior counterpart (p. 66). Moreover, the feeling of *isin* is experienced by all Javanese to all relationships outside the family. As Geertz (1961) explained, an example of *isin* feeling is ‘when a child is seen through the doorway without any clothes on, you feel *isin*’ (p.112). It is an expression of being ‘shy’ due to a person acting inappropriately. Moreover, feeling *isin* is to lower one’s self-esteem amongst the social interaction, and to cause social anxiety in the person’s thoughts. At an early stage, Javanese children are trained consciously to feel *isin* when they commit inappropriate actions and thus they must show a shyness in front of the family, with no response or reply to their mother (Magnis-Suseno, 1997).

Another derivative feeling of respect is the notion of being ‘*sungkan*’, a softer feeling of *isin* where a Javanese will act respectfully and politely to another superior or an unfamiliar person, without a feeling of doing something wrong (Geertz, 1961, p. 114). It can also be translated into a treatment of honouring between the lower ‘level’ classes towards the upper ones.

Historically, Javanese people place great emotional weight on the proper observance of the proprieties of deference in all phases of social intercourse (Geertz, 1961). A simple example of *sungkan* is if a visitor comes to a house and sits at a table, while the host sits in the corner; or if the host asks the guest to try the dishes on the table, he will say, “Don’t be *sungkan-sungkan*, eat as much as you like.” Thus, the feeling of *sungkan* is more positive than *isin*, showing an attitude of respect or shyness to a superior or to an unfamiliar guest (Magnis-Suseno, 1997).

Having mentioned respectful attitudes to family and elder persons, Javanese culture also identifies the core behaviour of *Bapakism*. This term reflects the form of paternalism and patronage (Geertz, 1961; Lewis, 2006). Literally, a *Bapak* is defined as a father, a charismatic figure, who demands respect, obedience and loyalty from subordinates (Efferin & Hopper, 2007). In turn, the character of being *Bapakism* demands being respected and receiving compliments from his subordinates. Sometimes, the treatment is overwhelming; a person treated as *Bapak* is authorised for all important decisions and all family members have to obey the *Bapak* figure (Rademakers, 1998). It is the *Bapak* figure that all members of the family must respect and obey, which in turn, is manifested in the extension of the Javanese social life.

The value of *Bapakism* cannot be separated from the socio-class strata in Javanese life. During his work in the city of Modjokuto (Central Java) Clifford Geertz (1976) classifies classes into three strata: *Abangan*, *Santri* and *Priyayi*. The *Abangan* class is considered the lowest stratum, consisting of village peasants, while *Santri* is the middle class, with the majority of strict Islam believers. The highest strata, *Priyayi*, is filled with high-ranking members of the kingdom and those who are considered public figures (see also Geertz, 1961). It is prevalent to show a high respect from the two lower classes towards the *Priyayi*, with a feeling of ‘*sungkan*’ towards this stratum. In some cases, showing respect and ‘*sungkan*’ is not enough; subordinates often provide gifts as well to their superiors (Magnis-Suseno, 1997), and in today’s life, it is a common practice.

### **3.3.1.2. Rukun**

The second Javanese value is *Rukun*. This value can be interpreted as the maintenance of social harmony (Geertz, 1961, p. 148). Being ‘harmonious’ in Javanese society is important; Javanese believe a person is obliged to control any impulses by managing emotional equilibrium in stasis, and to be aware of any reverberating emotional responses from others. Under the *Rukun* norm, it is expected that a person will not express opinions and feelings overtly to others that

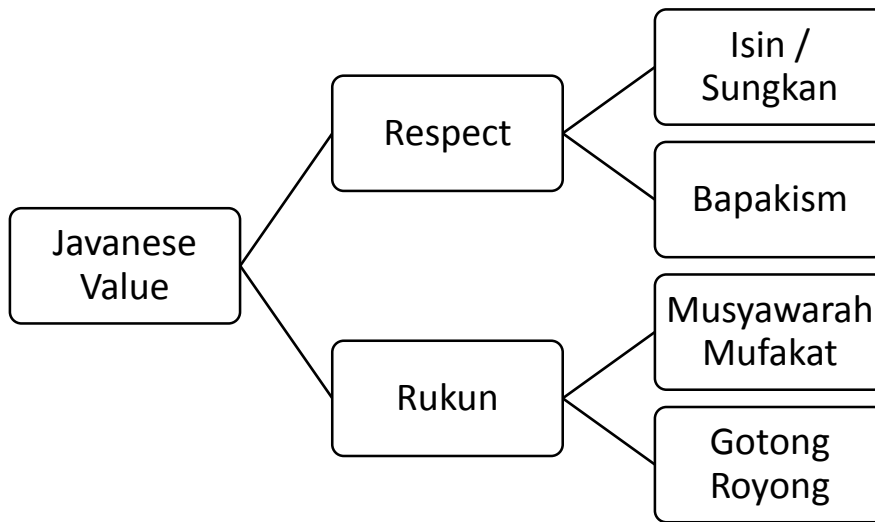
might cause division. *Rukun* avoids conflict, upholds harmonious agreement in which a person must respect another's thoughts. If there is disagreement, he must not express that in public. Thus, the practice of *Rukun* does not merely reflect mutual agreement but also honours the consensus of a group, without obstacles, and hinders any developing friction.

In the Javanese family, having *Rukun* is an important value and is considered a central element (Geertz, 1961; Magnis-Suseno, 1997). This key element projects an ideal relationship between siblings and other relatives. Moreover, all avoid disappointment by minimising conflict, so family ties are very strong. Thus, the value of *Rukun* is intended to repress any forms of conduct that enable a person or group to generate an open conflict or confrontation, and thereby remain in peace (Magnis-Suseno, 1997). This behaviour reflects wider relationships, not only within the smallest family but also to neighbourhoods, villages and those most distant, such as municipalities and government agencies.

The *Rukun* norm is also manifested in a daily routine through collective and unanimous decisions (*musyawarah mufakat*) and co-operation (*Gotong Royong*) (Efferin & Hopper, 2007). *Musyawarah* represents an equal attitude toward all voices and opinions, in order to establish the totality of a consensus of opinion (Mulder, 2005). *Mufakat* constitutes the unanimous decisions from the discussion to gain consensus across all members. In a group or community discussion, the aim of *musyawarah* is to accommodate all views, but no decisions are taken to satisfy only one party. Instead, all decisions are taken by consensus and all participants should be prepared to relinquish and/or compromise their particular view (Magnis-Suseno, 1997). It is believed that this attitude is proven better than Western systems of voting, when it reaches a unanimous decision. In fact, the term "*musyawarah mufakat*" is adopted as one of the five principles in *Pancasila* ideology, to be applied in all Indonesian practices.

The other value, *Gotong Royong*, denotes mutual assistance and the sharing of burdens (Mulder, 2005). It is typified by mutual assistance amongst Javanese society, helping one another when building a house or preparing a family celebration in a village, for example (Magnis-Suseno, 1997). The nature of helping one another is that there is no expectation to ask for something in return as an exchange of providing such assistance. The Javanese people believe that it is important to maintain good relationships with others by helping one's neighbours, so each can maintain conformity with the society without trying to distinguish oneself above others (Magnis-Suseno, 1997). This reflects the value of *rukun*.

The above description permits a possible diagram, shown on figure 3.2, of these principles of Javanese values. The Respect value consists of the feeling of *isin* or *sungkan*, which all Javanese will honour to any person, while *Bapakism* is the attitude to respect the elders or a high-ranking person in society. The *Rukun* reflects a deliberate action by an individual, to respond to others by affirming in a general consensus (*Musyawarah Mufakat*) or to provide assistance to others (*Gotong Royong*).



**Figure 3.2. Javanese Values**

(adapted from Geertz, 1961)

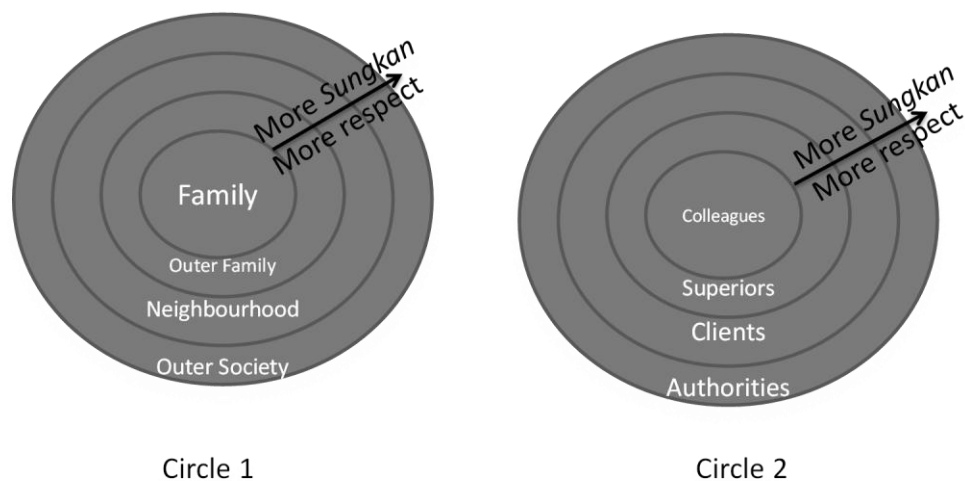
As described previously, the behaviour of most Indonesians is highly influenced by Javanese traditions, due to the proportion of the Javanese community that spreads across the islands of Indonesia. Statistically speaking, the Javanese portion consists of 41.7% around the archipelago, and influences all ways of life in society (Arifin, 2011). Political influences of the Sukarno and Suharto presidential eras have also stimulated the spread of the Javanese inheritance across the region, particularly in governmental and military contexts. Although the Indonesian language has a Malayan origin, the Javanese hegemony is held strongly in Indonesian society. In addition, Javanese culture has a complex code of etiquette and respect, which is often reflected in the language and terminology.

### **3.3.2. Javanese Influence in Indonesian Society**

Many studies have observed the influence of Javanese culture in the Indonesian business community, as Javanese hegemony has become the ‘soul’ of modern Indonesian business. The Javanese value of ‘respect’ is manifested in customary attitudes in Indonesian society. As a

major ethnicity in Indonesia, Javanese influences the way all people respect each other, including treatment in business. Historically, during and after Independence in 1945, Javanese people have held positions within most of the authorities in Indonesia, and so have influenced the political and cultural hegemony until recently (Irawanto, Ramsey, & Ryan, 2011b). Moreover, under ‘*Bapakism*’ values, Indonesia is considered to be a country with patronage relationships, where the *Bapak* has a strong role of power, authority and legitimacy. This reflects the principle of the Javanese nuclear family, where a father is a person to be respected and obeyed by other family members. To some extent, during Suharto’s presidency the *priyayi*, who were chosen authorities in the government, dominated almost all government sectors such as military, the cabinet and municipal bureaux (Irawanto, Ramsey, & Ryan, 2011a). In addition, Sarsito (2006) argued that during the Suharto regime, the president treated the country and the state as “one big Javanese family”. Suharto positioned himself not only as a leader but also as the father of this big family (ibid p.460). The 32 years of his presidency increasingly led the country into a Javanese-type of family and cultural values.

The above description provides a useful insight; due to the long influence of the Javanese president, the Javanese ‘respect’ value in a family correspondingly took on a wider scope. To some extent, the application of Javanese respect is believed to be transformative in larger entities such as organisations and business practices. Most local firms and public sectors exhibit this strong influence of Javanese values.



**Figure 3.3. Comparison of Javanese Respect Values**

Circle 1 in the figure above reflects respect from a nuclear family. Family consists of the core members; father, mother and children. The outer family are the extension of the core family,

such as grandparents, older fathers/mothers. Neighbourhood is the next layer, where the feeling of '*sungkan*' is stronger than in previous circles. The outer layer is society, where relationships are furthest from the family and respectful attitudes are highly valued. Thus, the more removed from the central family unit, the more a person must respect others. Circle 2 replicates parallel behaviour in any organisation which is strongly influenced by Javanese values. The closest relationship is that of a person amongst his/her colleagues. They may express their feelings without hesitation with friends in the workplace; thus less (or even no) '*sungkan*' feelings may occur in this circle. The 'superiors circle', located in the second layer, generates a more respectful behaviour. This includes exhibiting '*sungkan*' attitudes to managers and directors. 'Client' is the next layer, whereby the distance of each relationship is further than the two previous layers. The feeling of '*sungkan*' is greater and an organisation is likely to position itself 'lower' than its client, in order to show such Javanese 'respect'.

The last layer consists of government authority; here the strongest values of Javanese core cultural characters are exhibited. As previously mentioned, this layer contains mainly the *priyayis*; high-ranking members of authority or some cases, someone who is chosen by the government to be positioned as a regulator in government agencies. A high level of respect is expected when interacting with this layer, since these persons have the privilege to become the 'Bapak' (father). Moreover, this attitude of subordinate/superior relationship also include a life philosophy of *nrimo*, which emphasises accepting one's status with respect (Irawanto *et al.*, 2011a). The aim is to establish paramount values: to build a harmonious whole. This links to *Rukun* values described below.

In a business context, although the Indo-Chinese are perceived to dominate Indonesian economy, the platform of business norms are increasingly inferred to be of Javanese cultural norms (Hitchcock, 2000). A study by Efferin and Hopper (2007) illustrated that the Javanese as well as the Chinese cultures both exist and influence business design and operation in a company in East Java. Chariri (2009) found a strong influence of Javanese culture within the organisational behaviour in an Indonesian insurance company based in Jakarta. He highlighted that the company's public accountability, conservatism and transparency are influenced by each members' ethical behaviour and social harmony, and reflects Javanese traditions. Furthermore, it is also believed that legal traditions, particularly Javanese norms which include harmony and patrimonial behaviours, are strongly held in most businesses in Indonesia, compared to the enactment of given rules (Perera & Baydoun, 2007). These findings promote

a concept that Javanese hegemony becomes a significant factor in explaining the operation of Indonesians institutions.

In a broader context, Perks and Sanderson (2000) investigated the process of establishing a joint venture company between a British multinational company and two types of Indonesian companies: state-owned and private. They studied the particular characteristics of each, how they were exposed to the diversity of cultural background, and conflicts of interest between the management interests. They found that not all negotiations were successful; instead, a number of miscommunications and misinterpretations occurred. The Indonesian partners preferred to deal with a counterpart having similar status. They refused to negotiate with the lower status staff. It is thus imperative to consider the hierarchical stance of each negotiator in the Indonesian environment with Javanese norms of respect as described above. Other findings concluded the importance of having a consensus in decision-making, which involve all senior key persons reaching a unanimous decision (*musyawarah mufakat*). The Indonesian parties sought to ensure harmony and avoid conflict, while preferring to be less pressured to make the decision. This process is often regarded as excessive bureaucracy from the viewpoint of Western counterparts.

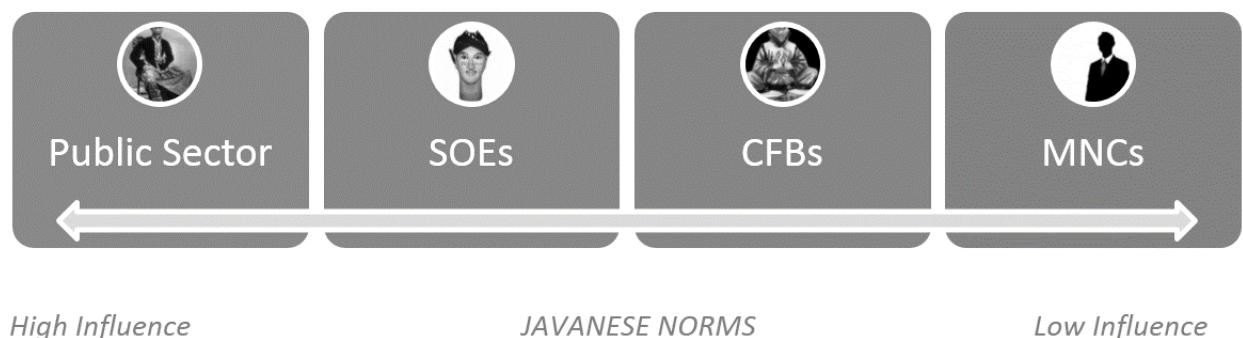
As with any other country, there are two broad types of Indonesian firms based on ownership structures: the first is the public-sector company or state-owned enterprise (SOE), where the majority of ownership is held by the government; sometimes a small proportion of ownership is listed in the stock exchange for external finance. The second is the private company, where ownership originates from an individual or a group. The two types have considerable differences in terms of organisational culture and behaviour. Prior to independence in 1945, SOE firms were Dutch-owned firms that controlled most of the public services and resource companies. The Indonesian government later took over these firms and were controlled by the *pribumi*. Nonetheless, the Indonesian government provided several incentives such as tax holidays and subsidies to allow SOE's to compete with private and multinational firms. Hill (1982) argued that extending such facilities enabled the SOE's to sustain the *pribumi*'s participation in Indonesia's business and economy, in spite of competition from private Indo-Chinese firms. These treatments lead SOE's to become less competitive and more abstemious, thus generating a typical customary conduct in this type of firm.

A third prominent category of firm is the Indo-Chinese family business which claims to control almost 73% of the Indonesian economy (Rademakers, 1998). As most literature argues, the



Indo-Chinese family business illustrates the relevance of close family and relative affiliation, as well as fellow Chinese trusted relationships. Hitchcock (2000) studied Chinese ethnicity and tourism entrepreneurship in Java and Bali. He found that, due to Indonesia's uncertain regulatory climate, it is important to have confidence in networks based on ties of kinship and ethnicity amongst entrepreneurs. Moreover, 20.17% of the Indo-Chinese reside in Jakarta (Ananta, Arifin, & Bakhtiar, 2008) as many Indo-Chinese businessmen control important business sectors in Indonesia. Historically, this ethnic group has been the 'middleman' traders to indigenous Indonesians, and since independence they have positioned themselves as major economic actors. They also retain commercial know-how and international connections, leading to inherited family businesses lasting many decades (Lewis, 2006).

Over and above these characteristic groups lies the fourth type of business, the western-type enterprise that has infiltrated some firms in urban areas of Indonesia. Foreign multinational enterprises have a variety of influences on local firms, merging either as Joint-Ventures or in direct investment forms. Moreover, the participation of locals investing in the listed stock exchange companies has transformed an antiquated system of bureaucracy into a more capitalist type of business environment. The following figure illustrates one possible typology of behaviour amongst these firm types, based on the Javanese norm influences, as opposed to the Western culture.



**Figure 3.4. Indonesian firms' Javanese influence**

(CFB in this chart means Corporate Family Business, mostly Indo-Chinese)

The above continuum leads to a notion that the Javanese traditions exist alongside Western business culture. The public sector is believed to have a high degree of Javanese culture, where it commonly operates in the 'Javanese' style (Irawanto *et al.*, 2011a). Based on Indonesian history, Javanese culture is believed to be closely connected with political and presidential

leaderships as almost all presidencies were originated from the Javanese inheritance, such as Sukarno (1945-1967), Suharto (1967-1998), Abdurrahman Wahid (1999-2001), Megawati (2001-2004) and Susilo Bambang Yudhoyono (2004-2014). The preferred class of *priyayi* dominates almost all important sectors, such as government agencies. In addition, the Javanese culture embraces autocratic patronage so that a follower must comply any direction of a leader or *Bapak* (Irawanto *et al.*, 2011b) which then produces *hormat*, or expectations to be respected by society.

Nonetheless, this attitude becomes overwhelming, in that many bureaucrats may take for granted this value to take advantage of their positions of authority. As mentioned previously, the Javanese often provide gifts in honouring respect to the *priyayis*, which eventually creates patterns of habitual actions in business relationships. Many of business participants thus perform this 'ritual' to government agencies in order to bypass cumbersome and rigid regulations. It is becoming a common practice for many business practitioners, and corruption becomes embedded in a system which perpetuates a high level of bureaucracy and authoritarian models. Thus, in the current situation, Javanese values may not align with Western perspectives to establish effective management performance. In conclusion, Javanese values both remain prevalent in Indonesian daily life and influence much business behaviours (Irawanto *et al.*, 2011a).

### **3.3.3. Islamic 'culture' in Indonesia**

As previously mentioned, Islamic culture has been an influential factor in deriving norms and values in the Indonesian culture. Since its first arrival in the country, Islam promoted new norms originated from the Middle-east perspective, and based upon the Holy Book of Quran and the Hadiths (sayings and teachings) of the Prophet Mohammad. It is believed that Islamic faith was brought by the Arabic traders in the 15<sup>th</sup> century, where new perspectives for general economic behaviour and trading activities was introduced predominately to Sumatra island (Sukoharsono, 1998). Subsequently, alongside the spread of the faith in Java and other islands in Indonesia, Islam gradually emerged as a new way of life in the country; which gradually replaced Hinduism and Buddhism, and acculturated by local culture of mysticism and animism (Lee, 2004). As such, the teaching of Islam in Indonesia was previously preached as symbolic gestures and behaviour that the common local peasant observed in daily life. The prominent preachers, namely *Wali Songo* (the nine saints of Indonesian Islam) were spreading Islamic faith by using traditional Javanese context and norms throughout the Java islands in the 15<sup>th</sup>

century (Ricklefs, 2001). There was a high level of tolerance in the local culture to accept various religious norms, particularly the Javanese, which brought new Javanism ideology in the society (Anderson, 1965).

During the independence movements where young politicians strove to promote independence, the majority of Muslims in Indonesia formed numbers of parties, institutions, organisations. Prominent Islamic leaders were actively involved in Indonesian politics. Yet, political Islam has failed to dominate Indonesian politics (Sukoharsono, 1998, p.86). This was due to the resistance of the state to impose an Islamic identity and *syariah* law. Soekarno, as the first president, insisted to maintain the five principle of Indonesian ideology, named *Pancasila*, which embodies plural acceptance of religious beliefs and uphold tolerance and prosperities in the country (Lee, 2004). Hence, politically speaking, the influence of *Syariah* Law, which denotes Islamic commercial activities, ownership, earning, the Lawful and the Unlawful, the ethics of the rules of farming, the principles and practices of trade, consumption, and saving and Zakat (Sukoharsono, 1998, p.15), could not be fully implemented as a national ideology.

According to Abeng (1997), Islam is promoted not only to spread good deeds in personal life, but also to guide business activities. He emphasises that all Muslims should abide such rules and guidelines that are written in the Holy Quran. The ethics of Islam encourages Muslims to undertake business ethically, and maintain a stance between the Lawful (Halal) and the Unlawful (Haram) behaviours. In the contemporary Islam, which reflects in most Muslims in Indonesia, the application of Islamic economy does not relate closely to *Syariah* Law, which is more strongly manifest in other Islamic countries such as Saudi Arabia (Hudaib & Haniffa, 2009). The mixture of various cultures in the Archipelago, and the high tolerance of acculturation processes, has made Indonesia a democratic secular nation but with a strong Islamic influence. Hence, Rudnyckyj (2009) compiles three aspects of Indonesian 'spiritual economies', which reflects the adaptation of a contemporary Islam and what may be seen as the 'neoliberalism' of transparency and accountability. They are (1) objectifying spirituality as a site of management and intervention, (2) reconfiguring work as a form of worship and religious duty, and (3) inculcating ethics of individual accountability that are deemed commensurable with neoliberal norms of transparency, productivity, and rationalization for purposes of profit (Rudnyckyj, 2009, p.105). So acknowledgment of such Islamic influences has to be incorporated into any study of Indonesian accounting development, as further developed in section 3.4.3 as follows.

### **3.4. Studies in Indonesian accounting development**

This section illustrates studies in the Indonesian accounting development, which consists of two main issues: the structural development of Indonesian accounting profession, and the attitudinal aspect of Indonesian professional accounting.

#### ***3.4.1. Structural Development of Indonesian Accounting Profession***

In the previous chapter, it was argued that the development and professionalization of accounting in developing countries cannot be separated from the influence of Western imperialism. Besides the domination of the British Empire in most parts of the world, the Royal Dutch also colonised some parts of Latin America (Suriname, Netherlands Antilles), Africa (Ghana, South Africa) and Asia (Sri Lanka, Indonesia). Indonesia, known previously as the Dutch East Indies, has been a Dutch colony for more than 350 years. As such, the political, economic and trading customs were heavily influenced by the Dutch systems. The influence of Dutch accounting systems can be traced back to the 17th Century, when the first trading company was established in 1609 by the VOC or the Dutch East Indies Company (Sukoharsono & Gaffikin, 1993a). It was believed that this trading announced the modern accounting system in Indonesia, which set out the first general accounting office posted in Banten, West Java (Murwanto *et al.*, 2011). This was the first single-entry accounting system introduced in Indonesia. Later, the first accounting regulation was issued by the Dutch Governor General of the VOC in 1642, where it administered cash receipts and receivables (Abdoelkadir, 1982). The early double-entry bookkeeping was introduced, where the terms Debit and Credit were used in the report. After the Dutch company moved to Batavia (now Jakarta) in 1619, the trading of spices was monopolised and enforced by Dutch arms. As the commercial activities began to increase, the Dutch company started to record and keep all accounts that was purposed for proper planning of revenues and expenditures, to establish accountability for entrusted companies, and to monitor use of funds (Sukoharsono & Gaffikin, 1993a). Since then, the financial report became mandatory for all Dutch companies.

Prior the early 20th Century, Indonesians had no involvement in doing accounting, or had been trained to such accounting knowledge. This was due to the cultivation system, which was introduced after the Napoleonic Wars, when the Dutch economy needed to recover. As such, all indigenous Indonesians had to sell their crop only to the Dutch government with a low and

fixed price (Murwanto *et al.*, 2011). The severe treatment and peonage system to the Indigenous led to resistance by the people of Indonesia, which also forced the Dutch to abandon its harsh system. After the establishment of The Dutch Trading Company (*nederlandsche handel-maatschappij*) in 1825 and the Java Bank (*Javasche Bank*) in 1828, the practice of accounting grew significantly and various financial transactions such as capital markets, loans, deposits, promissory notes and savings were introduced (Sukoharsono & Gaffikin, 1993b).

In the 1920s, the Indonesians started to become involved in the accounting practice, although they were posted mostly on bookkeeping staff. Moreover, Indonesia started to establish manufacturing companies to supply components for the Dutch enterprises, and managed Chinese-owned enterprises. The strong need for accounting services supported the development of accounting knowledge and practices for the Indonesians (Sukoharsono & Gaffikin, 1993a). Furthermore, the Industrial Revolution of the 18th and 19th Centuries has had a significant influence on most of the European countries, including the Netherlands and its colonies. This resulted in a number of Dutch enterprises investing in a large number of industries in Indonesia, which eventually brought public accountants into place. It was not until 1918 that the first accounting firm in Indonesia was established, namely Frese & Hogeweg, which opened its office in Jakarta, followed by H.Y.Voorns in 1920 (Abdoelkadir, 1982; Tuanakotta, 2007). These firms created a demand for accounting knowledge and practices in which Indonesia was lacking in its formal education system. At this time, much of the accounting work relied on the expertise of foreign accountants from Britain and the Netherlands (Sukoharsono & Gaffikin, 1993b). Table A2 in the Appendix provides the affiliations of accounting firms operating in Indonesia, which impounds some of these historic developments.

In order to meet the needs of the Dutch business environment, the first formal accounting education programme was established in 1925 in Semarang, where the Dutch facilitated a programme, namely “*Bond van Vereniging voor Handel Onderwijs*” standing for Trading Teacher Association (Abdoelkadir, 1982). The programme included bookkeeping to support the opening of the Stock Exchange Agency in Surabaya and Semarang (Sukoharsono & Gaffikin, 1993b). This marked the first formal education programme for Indonesian accountants, who could gain certificates called “Bond A and B”, which were roughly equivalent to basic and intermediate accounting (Abdoelkadir, 1982).

After Indonesian independence in 1945, the Dutch influence remained strong in the economic sector, including some Dutch accounting firms in major cities. At that time, none of the accountants were Indonesian, who were mostly bookkeepers. The accounting systems and regulations followed the Dutch systems, where accountants are officially registered (IAPI, 2012). As described in Chapter 2, the Netherlands accounting profession consists of two bodies: the VAGA and the NiVA, whose memberships originated from various certificate and graduate accountants with considerable working experience. The Indonesian graduates, however, could not be members of these associations after Independence due to their Indonesian nationality (Tuannakota, 2007).

This situation encouraged Prof. R. Soemardjo Tjitrosidojo and the first four graduates from the University of Indonesia; Basuki T. Siddharta, Hendra Darmawan, Tan Tong Joe and Go Tie Siem, to initiate the establishment of the Indonesian Accounting Association (IAI) on December 23, 1957 (IAPI, 2012; Tuanakotta, 2007). This was followed by the establishment of a formal accounting programme assigned to University of Indonesia in 1952. The first local accounting graduates graduated in 1957, coinciding with the establishment of the Accounting Association in Indonesia, or IAI (Tuanakotta, 2007). At that time, the Association was largely focussed on developing local competencies and its members were treated as “second class” accountants by the Dutch companies.

Following the first establishment of accounting programme in the University of Indonesia, several universities began to embed accounting courses in their programmes, such as STIKN in 1957 (now STAN), Padjajaran University in Bandung (1961), Sumatera Utara University (1962), Airlangga University in Surabaya (1962), Gadjah Mada University in Yogyakarta (1964) and Brawijaya University in Malang (1977) (Sukoharsono & Gaffikin, 1993b). As the country began to develop its economy and financial markets, the universities contributed to the number of local accountants as well as to the role of becoming a self-controlled accounting field in Indonesia. In turn, the enactment of Law No. 34, 1954 regulated the title of *Akuntan* (Accountant) for those who completed the bachelor degree in these universities. As Sukoharsono & Gaffikin (1993) argued, this regulation distinguishes an accountant as a person with proper skill and body of knowledge, exalted as a privileged expert within the business community.

The fall of the Sukarno’s regime and the rise of Suharto’s New Order Regime marked the opening of the economy and market to foreign investors. As with many developing countries,

the increasing numbers of investors from the West and from China brought foreign accounting firms into the country, such as Price Waterhouse of the UK and Sycip Gorres Velayo & Co of the Philippines. In turn, many local companies established joint partnership arrangements in order to obtain credit from overseas banks or to gain prestige and status. Thus, in order to govern incoming foreign-owned entities, in 1967 the Ministry of Finance launched a first decree which allowed partnerships between local and foreign accounting firms (see Appendix Table A2). The first foreign-local partnership was established by Santoso Harsokusumo partnering with Arthur Young & Co. to become Arthur Young & Santoso Harsokusumo, followed by one in the Philippines: Sycip, Gorres and Velayo joined a local firm Utomo Josodirjo to establish SGV Utomo (Tuanakotta, 2007). Along the way, the partnerships suffered fractions and disputes which resulted in disadvantages for the local side. As Tuanakotta (2007) illustrated, four unfair competitive practices were detected:

- (1) the foreign partners were too aggressive, leaving the locals to become ‘puppets’ in the partnerships;
- (2) many joint partnerships violated their agreements;
- (3) there were doubts that the foreign partners educated local accountants, as many ‘hijacked’ staff and partners from other firms, and
- (4) there were no such restrictions on foreigners’ working tenure and numbers of foreign partners.

As a result of complaints by the local partners, the Ministry of Finance issued a second Decree, Number 76 / 1971 (see Appendix Table A1), which limited joint partnerships by developing a reciprocity principle and limited working periods for expatriates. The number of expatriates was limited to a 2-year period, after which all employees were to be Indonesian nationals. In addition, after a further year, accounting firms were to be transferred back to Indonesian control. Although the partnerships viewed this decree with dismay, many partnerships became correspondent alliances instead. With this arrangement, local partners acted as the correspondent of their foreign partners, which was not anticipated in the Decree. Others established new corresponding partnerships, such as Go Tie Siem with Turquand & Young, Tan Eng Oen with Price Waterhouse, Suparman with Coopers & Lybrand, Sudomo with Peat, Marwick & Mitchell, and Darmawan with Touche Ross International (Tuanakotta, 2007).

During this period, there was an increasing demand for accounting services from both local and foreign enterprises due to economic liberalisation to foreign capital. The New Order regime

allowed Western-oriented political views and foreign capital to impact on local markets (Irmawan, Haniffa, *et al.*, 2013). As such, local partnerships were seen to adopt various strategies to attract clients, based on their knowledge and entrepreneur expertise. SGV Utomo chose to prioritise '*toserba*', a term used to represent 'all in one' services (Tuanakotta, 2007). The firm served any type of industry of any size with a range of audit fees, and including supplying expatriate visas. Moreover, the firm's motto of 'engaged to all, married to none', strengthened its position that SGV Utomo accepted all clients from the Big-8 (now Big-4) and the second-tier firms. Other joint partnerships of Arthur Young – Santoso Harsokusumo (AYSH) employed what is described as a boutique strategy, where they provided high fee services to specific clients, and often recruited specialist staff and partners from other firms. These two distinct strategies resulted in different treatments for staff recruitment and development in the local firms. AYSH's emphasis on the "higher-income orientation" was likely to recruit other firm's auditors, whereas SGVU preferred training and developing staff from junior auditors. As a result, SGVU possessed qualified local staff who were attractive for other firms to then hire. On one hand, SGVU suffered from a high staff turnover compared to AYSH, but on the other hand, the ex-SGVU staff would offer referrals and thus the firm gained more new clients with this strategy (Tuanakotta, 2007).

In order to gain control of partnerships with foreign accounting firms and to take advantage of the corresponding alliances, the Finance Minister launched the 'Third Decree, Number 1681' in 1976, strengthening the reciprocity principle and lengthening the time an expatriate could work in Indonesia. The Indonesian Accounting Association made a significant contribution to this decree, although it created tensions between the foreign accounting firms and the interests of the local accountants. It was not until after the 1980s that the IAI made clear its aims, which were to uphold the interests of the profession as a whole. While more accounting firms established a corresponding relationship with foreign accounting firms, the profession did not object as long as they, the firms, cooperated with the locals and shared the market. In addition, IAI became an important player in developing the professionalisation of accounting by organizing certification of practitioners. However, following Indonesia reopening the capital market and the oil-boom period, there was a shortage of graduate accountants in the late 1970s. One of the reasons for this was because in the previous regulation, only public universities could offer an accounting programme, which consequently created an exclusive barrier to those of private universities. As such, in the 1980s the government decided to end the monopoly of



public universities and allowed private universities to produce accounting graduates. In order to secure quality control, the government required graduates from private universities to sit a State Accounting Exam before being given the *Akuntan* title (Murwanto *et al.*, 2011).

Another accounting profession milestone was the establishment of the Indonesian Institute of Certified Public Accountants (IAPI). This was initiated by Theo Tuanakotta due to the increasing number of foreign and local accounting firms in the country (IAPI, 2012). He felt that the current association could not focus on issues related to accounting firms and its regulations. Moreover, one of the problems faced by Indonesian accountants was that users did not understand the financial statements and the reports of the auditor's opinion, as well as the responsibilities of each party (Tuanakotta, 2007). Thus, on 7<sup>th</sup> April, 1977, the IAI established the Public Accounting Section to assist in developing audit programs in Indonesia. Later, this section separated from the IAI to establish an independent institution in 2007, named the Indonesian Institute of Certified Public Accountants (IAPI) (IAPI, 2014). The separation was due to the increasing demand in auditing standards and globalisation. As such, the IAPI's programme was to meet the requirements of IFAC related to audit profession and ethics, as well as implementing audit certification.

The fall of the rupiah in 1997 and the Asian economic crisis increased the pressure on the government to improve the quality of financial reporting. Until early 1998, bankruptcy conglomerates, the banking collapse, rising inflation and unemployment forced the government to cooperate with the IMF and negotiate various rescue packages offered by the IMF. Some accounting issues were the weak enforcement of accounting regulations, quality of Indonesian auditing and the incompatibility of the Indonesian capitalist system to international accounting regulations (Murwanto *et al.*, 2011). The latter explained the current political situation, where the role of military was strong in the economy and that 'crony capitalism' dominated the current government (Perera & Baydoun, 2007). The crisis undermined the strong influence of the military-dominated government, which helped the country to restructure the capitalist system. The existence of the accounting profession continues to be recognized by the government as a profession of public trust. Besides the support of the government, the development of a public accounting profession is also determined by the economic development and public awareness of the benefits of having public accounting firms.

On another side of the spectrum, the Ministry of Finance announced further changes, with regulations governing the establishment of any new accounting firms and the issue of

professional certificates for accountants or CPA in January 1997 (Murwanto *et al.*, 2011). Due to the reduction of required courses in the accounting major from 166 credits to 144 credits, there are several accounting subjects not included in the bachelor programme but which need to be taken in order to get the *Akuntan* title. In 2001, the accounting education requirement was modified so that if an accounting graduate is seeking this title, at least a Bachelor degree (Sarjana Ekonomi) and further training development programme from a university is required. Furthermore, the law requires that if the registered accountant wishes to open a new firm, he/she would need a further licence by passing an exam and issued by IAI (called BAP).

The latest regulation was issued in 2011 in order to further govern the establishment and monitoring of accounting firms wishing to establish relationships with local firms. The regulation covered foreign firms from countries which had a mutual recognition agreement with Indonesia. It also provided requirements for foreign professional's competency in mastering the Indonesian language, domestic taxation and trade law. The composition of a firm has to demonstrate a 1:10 ratio of foreign to local accountants at every level. The Indonesian Institute of Public Accounting (IAPI) refused to embrace articles on criminal sanctions and penalties to auditors, in relation to accounting firms being accused to professional misjudgements. IAPI felt such punishment is too severe, and advised the government to change the law to "professional sanctions". Also, IAPI perceived that the decree merely accommodated the interests of the WTO agreement and accounting liberalisation in ASEAN countries, rather than protecting local accounting firms (IAPI, 2010). These disputes are currently being further discussed by the government and IAPI.

### ***3.4.2. Attitudinal Aspects of Indonesian Professional Accounting***

Compared with the structural event of the Indonesian accounting profession, there is limited research investigating the nexus between ethics and professionalism in the Indonesian context. Many studies focus on the causal and correlation effects between a particular ethical value and other variables (see Irmawan, Hudaib, *et al.*, 2013; Nasution & Östermark, 2012). It is also important to observe the causal argumentation on how such ethical perception is developed, and to what extent the institutional fields influence an auditor's behaviour.

One study by Sarwono and Armstrong (2001) observed three Indonesian ethnic groups, Javanese, Batak and Indonesian Chinese, in regard to their ethical behaviours in business. They suggested that the three groups have considerable differences in operationalising ethics in business conducted in Indonesia. In their research, which involved managers from six different

cities in Indonesia, they found that these represented different ethnicities in the business community and had significant differences in terms of their economic value orientation and their religious value orientation. They found no significant differences in political orientation. According to the finding, the Indonesian-Chinese economic value orientation is higher than the Javanese and Batak. This is apparently due to historic struggles of the Indonesian-Chinese when migrating to Indonesia, governmental policies in pre-independence and/or post-independence eras and differently styled orientation.

The Javanese “low economic” orientation is believed to have originated in the Dutch regimes, where most of the indigenous people were discouraged from participation in entrepreneurial business and tended to be posted in the public service sector. In terms of religious orientation, the Javanese and Batak obtained the highest scores, while the Indonesian-Chinese obtained the lowest. Thus they conclude that studies in a nation with multi-ethnic diversity are difficult when it comes to the alignment of culture with ethical behaviour. They found that amongst these ethnic groups, perceived ethical judgements are different. This study proposes further investigation to study the degree to which ethnicities perceive ethical problems differently; and that both corporate culture and formalised professional codes of conduct are recommended for future ethics training (Sarwono & Armstrong, 2001, p. 52).

Further studies of the Indonesian accounting profession and ethical behaviour have been conducted by Gaffikin and Lindawati (2012), and Ludigdo and Kamayanti (2012). Gaffikin and Lindawati (2012), for example, illustrate the role of moral reasoning in influencing auditors’ perceptions of codes of ethics in Indonesian accounting firms. Their studies indicate the high level of external environment which influences the moral attitude of auditors. In the Indonesian context, there are five assumptions to be considered when scrutinising Indonesian auditors’ ethical conduct. These are:

- a) Possible violation of code of ethics in family-owned companies;
- b) Failure of Auditors to follow ethical standards;
- c) Auditors take advantage of companies which lack knowledge of the client’s code of ethics;
- d) Standards are not appropriate to Indonesian context, and
- e) Political issues of collusion, cronyism and nepotism in government institutions.

The results suggest there is a ‘low level’ of moral development in Indonesian accountants and a lack of appropriate codes of ethics to guide accountants’ actions. One of the causes of non-

compliance of standards is that the standards are deemed inappropriate for implementation in Indonesia. In terms of implementation of a code of ethics, Gaffikin and Lindawati (2012) offered two research avenues to be further developed: the existing code of ethics needs to be reviewed, and interpretations of the existing code and the results of cases or complaints against accountants by their peers or the public in general, need to be published. Other issues surround the desirability and the implications of globalisation, the determination of appropriate professional behaviour across different cultures, the usefulness of professional codes of ethics especially in a global environment, the ideological bases of differing economic systems, and the relationship between the regulatory bodies within an economy. The question is thus raised whether the ethical standards 'fit' the conditions of Indonesia's companies in every situation.

Ludigdo and Kamayanti (2012), on the other hand, investigated the coercive processes of the adoption of IFAC code of ethics into the Indonesian Accounting Code of Ethics. They argue that Indonesia should employ Pancasila (the Indonesian national ideology) as a proxy to determine the degree to which local values relate to Indonesian accounting ethics. As a nation with various religions, the ideology of Pancasila truly reflects the characteristics of the nation, including the first pillar: spirituality and trusting God. Their argument posits that the IFAC code of ethics fails to accommodate local beliefs and customs, and that Pancasila can be offered as a set of alternative values to reflect local values. Their argument is as follows:

“[The] spirit of place conveys a message to be true to your roots, your family, city, region and culture. The concept of "home" or from which a person belongs to, confirms a relationship between ethics with loyalty. What is truer than using one's ideology, in this case Pancasila? By using Pancasila as the basis of accounting codes of ethics, Indonesia will return to the roots of the nation and free it from ethical imperialism!” (Ludigdo & Kamayanti, 2012, p. 166)

According to IFAC, external auditors are expected to adhere to five fundamental principles when performing their tasks: integrity, objectivity and independence, competence, quality performance and professional behaviour (NZICA, 2012). Studies of audit professionalism can include audit independence and the degree to which auditors' ethical behaviour is exposed to a particular national, such as characteristics in Indonesia. Rusmanto (2001) investigated factors that affect auditor independence in Indonesian auditors. The study involved 29 auditors from mid-tier and Big-5 (now Big-4) accounting firms in Indonesia, employing two perspectives, external and internal. The external factors consist of audit firms' and clients' characteristics, audit and client relationship, and sanction enforcement; whereas the internal factors are auditors' personal qualities, professional ethics, and religion.

One interesting aspect he found was that in both small and big accounting firms, the auditors have a potential to compromise their own independent behaviour. Other findings related to improper relationships between auditors and clients due to long-term relationships. He concluded that auditor independence is a continuum, where its surroundings play an important role in influencing auditors' behaviour, including law enforcement. Nonetheless, the study did not explore further as to how internal and external factors are intertwined.

Irmawan, Hudaib, *et al.* (2013) explored perceptions of auditor independence in Indonesia and the importance of reports from the auditors' and users' perspectives. The research was based on the level of confidence from the Big-4 and non-Big-4 auditors, management, academics, investment analysts, internal auditor, credit manager and government officials. The study found ten factors that influence auditor independence: overdue fees, indirect financial interest, audit tenure, economic dependence, personal relationships, family relationships, crossover from audit firm to client and from client to audit firm, competition, non-audit services, and audit quality. In particular, auditors have less confidence in independence in five of the above factors, described below.

1) Indirect financial interest

Professionals such as credit managers often have fewer concerns with situations related to indirect financial interest. They would not pay much attention to issues such as how the auditor is appointed or whether there is any relationship between the client and the auditor. What matters to them primarily is the audit opinion. It is quite common for auditors to hold shares in other companies not audited by them.

2) Economic dependence

Given that the audit market in Indonesia is “high on the supply side”, high dependence on management for business may cause auditors to compromise their independence, as revealed in the financial crisis. One comment was, “In selecting an auditor, companies in Indonesia still behave like people who shop in a traditional market. They literally ask in advance whether the audit firm is willing to issue unqualified or not.” The danger of economic dependence on big clients, and size “mismatch”, will give corporates more power to exert pressure on auditors.

3) Crossover from audit firm to client and from client to audit firm

This issue concerns collegiality and alumni effects among auditors. Auditors who have left their previous firm may continue to leave a strong sense of collegiality with their former colleagues.

4) Non-Audit Services

Joint provision of non-audit services (NAS) by the incumbent auditor may impair auditor independence. The type of NAS and the timing of the provision of NAS are crucial in threatening professional judgement. Within current business practice, it is difficult to believe that a division within an Indonesian accounting firm maintains its independence between the audit partners and other division partners. Hence, the independence issue is significant in this context.

5) Audit quality

In terms of litigation law, auditor independence has a positive influence in the sense that it is one of the business risks faced by auditors.

The above discussion is particularly relevant; the current state of the Indonesian audit profession has to be considered as the ‘context’ within which this project will examine the ‘actor-centred’ culture of an international accounting firm. There is a clear gap of research in terms of how local accounting professionalism is manifest in accounting firms. The linkages to global partner identity, the degree to which firms offer professional training locally and abroad, and the interpretation of a code of ethics as an ‘action guidance’ in the Indonesian context will be further investigated in this study.

### ***3.4.3. Islamic perspectives in the Indonesian Accounting Profession***

Studies in Islamic perspectives in relation to accounting have been conducted in various research, such as the influence of Islamic state of Saudi Arabia to audit independence (Hudaib & Haniffa, 2009), structural development of an accounting profession in Pakistan (Ashraf & Ghani, 2005), and religious influences in accounting harmonisation (Hamid, Craig, and Clarke, 1993). However, few studies are found in relation to accounting, accountability and the Islamic context in Indonesia, especially the extent to which an Islamic perspective influences the behaviour of accountants or auditors. In one investigation, Rusmanto (2001) found that religious values have mixed results in as far as auditor independence is concerned. He argues from his study there were twenty auditors who believed that religious values had a positive effect on auditor independence, while eight auditors indicated otherwise. This suggests that there is no strong correlation of religion factors, including an Islamic perspective, in audit

professionalism. However, further scrutiny may reveal different perceptions that influence such social interactions, as well as business activities, in this study.

### 3.5 Conclusion

Politics and economy build up the unique characteristics of a nation state. Most developing countries suffer endemic corruption and cronyism; high levels of bureaucracy and feudalistic behaviour in government bodies are a result of the country's political and economic development. The post-independence process towards a self-governed nation develops in different patterns. This is due to various cultural backgrounds, the length of the colonial period, resource availability and the effort of the local people to improve their lives. Indonesia has had nearly 70 years of independence, allowing significant changes in political and economy from six presidencies. Each regime possessed its own leadership and system, and in the majority, the influence of Javanese culture is considered to have been strong.

In many cases, the Javanese values encourage the political and economic activities in the country, including remnant feudalism and the nature of "respect" to others. In the long run, these attitudes may become alarming, to the extent that corruption and cronyism are common in Indonesia. Although the current government is conducting a process of extermination of these misconducts, it is likely that corruption and cronyism will prevail in the society for a number of years. As such, in studying Indonesia's accounting profession and professionalism development, one must consider the importance of these aspects.

In terms of reflecting the cultural content, as previously mentioned, Javanese values and norms need to be discovered and analysed when describing Indonesia's personal behaviour. Generally speaking, although the number of ethnic groups spread across the nation is high, the commonality of behaviour represents Javanese values. The two unique characteristics of Respect and *Rukun* are ingrained in all Indonesian people, despite their ethnic backgrounds. Thus, in order to embrace such values, this research seeks to unbundle these Javanese values, as well as an Islamic perspective, which assist in revealing an in-depth understanding of each actor's perspectives.

Indonesia's economic development has been developing into a more liberal and capitalist market. Since the Suharto era in the '70s, the barriers for international trading have been gradually eliminated and foreign capital has entered the market. Alongside a market liberalisation is the penetration of foreign accounting firms into Indonesia, which eventually

affected the Indonesian accounting profession. Current studies suggest that the entrance of international accounting firms enable improvements in Indonesian accounting, but also created tension with local accounting firms. Both political and economic perspectives demonstrate Indonesia as the 'recipient' country has a relatively weak position to hold a position against the neo-imperialism of the Big-4 firms. The domination of the Big-4 firms in the association is high compared to those of local and smaller accounting firms, which suggests that the Big-4 have a political agenda and tend to disregard the development of Indonesian accounting practices.



## **Chapter 4**

### **A Framework of Institutional Logics**

## **4.1. Introduction**

This chapter introduces the theoretical framework used to answer the research question provided in Chapter One. It describes the development of institutional theory towards institutional logics. This theory serves as a tool to understand the extent to which an actor's actions may be observed within an organisation as a result of influences derived from internal and external values. In answering the research question, institutional logic is applied in order to understand the interactions between the values and beliefs of ethnicities, national cultures and international norms. Furthermore, the purpose of this thesis is to investigate audit professionalism in an accounting firm.

This chapter starts by describing the precursor of neo-institutional theory, offered by some prominent scholars in organisational and institutional theory. This is followed by the development of institutional logics; definition, principles, mechanism of change and the model of institutional logics. The subsequent section depicts the application of neo-institutional theory and institutional logics to accounting research. The conclusion section elaborates the utility of the institutional logics in this research.

## **4.2. Institutional Theory: Previous Studies**

Studies in institutional theory are highly influenced by the work of sociologists and anthropologists. Scholars in these fields acknowledge the importance of social construction and structure, in particular the relationships between an actor and his/her surroundings in an organisation. In general, an institution represents a social order or pattern that has attained a certain state or property (Jepperson, 1991, p. 145). An institution is considered to be a self-activating social process when a social pattern is chronically reproduced. The basic observation to such pattern relies on the material practices symbolic systems embedded in the social construction and meaningful experience (Friedland & Alford, 1991). Hence, institutionalisation is 'the process' of developing and learning such practise in various social settings (Dillard *et al.*, 2004; DiMaggio & Powell, 1983; Jepperson, 1991; Meyer & Rowan, 1977). It is also important that as an organisation is seeking legitimacy in order to survive, it will experience institutional environment pressures that result in structural and practical changes within organisational fields (Carpenter & Feroz, 2001). An organisation is presumed to maintain certain practices which are taken-for-granted by its employees and officers. This

practice is observable as the rational ways in which employees will follow routines, norms, values and symbolic meanings when performing actions.

Institutional theory has widely been used as an effective theoretical approach to illustrate the importance of organisational changes and activities in the society. Normally, an organisation will establish a rule-bounded and standardised social practice (Dillard *et al.*, 2004) where social behaviours are deemed to be institutionalised as taken-for-granted assumptions in social practices. Many studies have employed institutional theory to provide the lens to study processes of organisational changes that are affected by intra-organisational factors and inter-organisational perspectives. There have been significant contributions to institutional theory derived from various epistemologies; economics, organisational theory, political science and public choice, history and sociology (DiMaggio & Powell, 1991). Thus it is imperative to consider the holistic perspective of organisational changes with a robust theoretical base in a modern and complex society.

#### ***4.2.1. The Institutional Theory of Meyer and Rowan (1977)***

The modern or so-called New Institutionalism has been evolving for more than 30 years. Meyer and Rowan (1977) pioneered the perspective of institutional theory based on three central concepts: institutional rules, legitimacy, and isomorphism (Thornton, Ocasio, & Lounsbury, 2012). They address the distinction between a formal structure of an organisation and its actors associated in daily activities, in which they are intertwined with each other. The main issue derives from the point where the formal structure is rationalised in a way that makes sense to the actors. The structural elements and bureaucratisation are thus influenced by the inter-organisational contexts (Dillard *et al.*, 2004) and thus provide a prudent, rational and legitimate account of organisational activities (Meyer & Rowan, 1977). Greenwood, Oliver, Suddaby, and Sahlin-Andersson (2008) summarised five points of the institutional concept within this perspective.

- 1) Organisations are influenced by their institutional and network contexts. These contain rationalised myths of appropriate conduct.
- 2) Institutional pressures affect all organisations but especially those with unclear technologies and/or difficult-to-evaluate outputs.
- 3) Organisations become isomorphic with their institutional contexts in order to secure legitimacy (social approval), which in turn provides 'survival' benefits.

- 4) Where conformity to institutional pressures is contrary to the rules of efficiency, this can result in a ceremonial or ritual action which allows an organisation to decouple symbolic structures from the organisation's technical core.
- 5) Institutionalised practices are typically taken-for-granted, widely accepted and resistant to change.

However, as Greenwood *et al.* (2008) suggested, Meyer and Rowan's (1977) approach to institutionalism is interpreted as taken-for-granted rationalised myth and repetitive social behaviour which enables self-reproducing social order. The organisational culture conforms to the institutional rules and thus promotes isomorphic or similar change in form. Moreover, the perspective of a dominant logic of rationality represents a world under market, corporate, state and professional logics. This leaves other social reality, such as family, religion and community, less important because they are not considered as "modern and rational" (Thornton *et al.*, 2012). Thus, there is a gap and further scrutiny is needed to obtain a range of instances of empirical verification of this theory.

#### ***4.2.2. The Institutional theory of DiMaggio and Powell (1983)***

DiMaggio and Powell (1983) continued to develop institutional theory from the Meyer and Rowan (1977) approach. They developed some now-famous variants of isomorphism that focused on the area of organisational fields. The organisational field is considered as the basis of institutional life that allows isomorphic change, such as key suppliers, resource and product consumers, regulatory agencies, and competitors (DiMaggio & Powell, 1983). The proposition of this theory is that increases to an organisational field's structuration lead to increases in isomorphism in organisational forms and practices (Thornton *et al.*, 2012, p. 25). The three processes of isomorphism are coercive, mimetic and normative.

Coercive isomorphism is when an organisation is compelled to adopt structures or rules. The isomorphic action stems from both formal and informal pressures from other organisations upon which they are dependent and by cultural expectations in the society within which the organisations function (DiMaggio & Powell, 1983, p. 150). Organisations can be observed to deliberately reflect on and adjust to rules and regulation of the state in order to gain legitimacy. Hence, the character of the organisations tends to become homogeneous within the same domains and produce similar rituals of conformity.

Mimetic isomorphism occurs when one organisation copies another, often because of an uncertain or higher risk environment (DiMaggio & Powell, 1983). One example of this is the mimicry process: by modelling one organisational structure on another. In order to prefer one structural form over another, an organisation may copy even unintentionally, indirectly through employee transfer or turnover, or hire consultant firms or industry trade associations with resulting conformism.

Normative isomorphism occurs when the organisation adopts particular forms because professionals in the organisation claim such forms or artefacts are superior (DiMaggio & Powell, 1983). It stems primarily from professionalisation, where members search for legitimacy. In this case, the isomorphism stems mostly from the influence of universities and professional training institutions. They are considered to be the centre of development which enables establishment of norms and rules among professionals.

While isomorphic changes in institutions as described by DiMaggio and Powell (1983) have been widely used as a prominent and valued tool in social science, there are some criticisms of this theory. First, it is unable to determine the element of which rationality change may differ when institutionalisation occurs. In other words, the focus of rational behaviours and changes are likely to disregard the interests of actors and how each type of isomorphism is able to modify values, practices and strategic behaviours (Thornton *et al.*, 2012). The theory may have neglected 'actors' as the central element as a result of such isomorphism, and focus on material structures and mechanism. Friedland and Alford (1991) argued that in a society and social relations, one must consider the involvement of the 'actors' by considering culture and their symbolic behaviours. They suggest a meta-theory of institutions that explicate a wider perspective of individuals and organisations.

Second, amongst the three forms of isomorphism, the effects of cognition are mainly observed, and the coercive isomorphism reflects the manifestation of agency, as opposed to conformity and habitual behaviour (Thornton *et al.*, 2012). Moreover, the emphasis of isomorphism to survival is to achieve legitimacy rather than efficiency, which may reject rationality as an explanation of organisational structure (Thornton & Ocasio, 2008). The evidence suggests that patterns of individual and organisational behaviour vary institutionally and cannot be solely explained by competitive interaction between or among organisations, technology, or organisation-specific environmental conditions. The processes by which organisational forms tend towards homogenisation cannot be explained solely by their contributions of efficiency as

an organisational field (Friedland & Alford, 1991). The problem is that although institutionalists have studied institutional isomorphism as a consequence of changes, there has been a shortage of tools to define and understand the diffusion to which institutional content and forms are institutionalised (Friedland & Alford, 1991). Factors such as technological uncertainty, environment changes and the power of actors are all part of the processes of the diffusion of institutionalism.

#### ***4.2.3. The 'birth' of Institutional Logics***

The concept of institutional logics was pursued by Friedland and Alford (1991). They argued that an institution operates in three levels: individuals, organisations and society (Thornton & Ocasio, 2008). This is based on a central logic that sets out material practices and symbolic construction. Friedland and Alford (1991) further described the central logics that are established in Western societies as: capitalism, family, bureaucratic state, democracy, and Christianity (spiritual or religious). The concept of institution is analysed as a

...non-observable, absolute, trans-rational referents and observable social relations which concretize them. Through these concreted social relations, individuals and organisations strive to achieve their ends, but they also make life meaningful and reproduce those symbolic systems. Social relations always have both instrumental and ritual content. (Friedland & Alford, 1991, p. 249)

From this quotation, it can be interpreted that an institution is created based on an actor's "interests" and the root of institutionalisation derived from societal-level institutions (Thornton *et al.*, 2012). This argument is different from DiMaggio and Powell (1983), who posited that an institution is free from interest and power. Their theory separates an actor's interests from the understandings of an institution, while Friedland and Alford's (1991) argument led to the notion that an institution is developed from multiple logics of symbols and material practices, available to individuals and organisations as "bases of action".

Another concept of institutional logic proposed by Friedland and Alford (1991) is that since an institution is developed by cultural and symbolic meanings, this approach is structural, whereby society is derived from interpretive or cultural analysis. This theory is aligned with other symbolic scholars of culture, such as Clifford Geertz and Benjamin Schneider. They posit that culture is a "product of mind", manifested in shared meanings and symbols (Allaire & Firsirotu,

1984). As a consequence, the theory contradicts the previous epistemology of “materialist-idealist” introduced in the 19th and 20th centuries<sup>7</sup>.

In short, institutional logic emphasises the “metaphorical mechanism” where, to understand an institution, we not only understand the world, but also understand where we live in that world (Friedland & Alford, 1991). Individual or organisational rationality is relative, depending on the location where he/she is located in one or more institutional orders or cultural subsystems<sup>8</sup> (Thornton *et al.*, 2012). Hence, institutional logics offer a “freedom” of individual and organisational changes that are subject to different types of institutions and instrumental choices. Individual interpretation of rationality may change according to the “institution”, which conveys both sense-making and decision-making within the context of that institution.

### **4.3. Institutional Logics**

Subsequent to Friedland and Alford's (1991) argument on institutional theory, there was a number of papers produced in conjunction with the institutional logic perspective. Settings, such as universities, commercial and public domains, book publishing companies, health care, mutual funds, banking and architects, have employed this theory in defining the relationship between individuals and an organisation. Institutional logic, as a framework, has a relatively different approach in defining the core causes of agency and change, compared with the previous approaches to institutionalism. The definition of institutional logic was developed by Thornton and Ocasio as:

...the socially constructed, historical pattern of material practices, including assumptions, values, beliefs and rules by which individuals and organisations provide meaning to their daily activity, organise time and space, and reproduce their lives and experiences. (2008, p. 2)

Institutional logic is a core concept in sociological theory that focuses on how broader belief systems shape the cognition and behaviour of actors. The concept of logic refers to “broad cultural beliefs and rules that structure cognition and fundamentally shape decision-making and action in a field” (Marquis & Lounsbury, 2007, p. 799).

In order to enhance the understanding of ‘cultural’ mixture within an organisation, aspects such as macro-societal phenomena, multiple logics in conflict and consensus, the hybridisation of

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<sup>7</sup> The term “materialist-idealist” was introduced as a concept that materialises human life that existed, reflected, legitimated, or was functionally concealed in social structure.

<sup>8</sup> Institutional order is used in Thornton *et al.* (2012) as equivalent to “institution”.

logics and institutions in other part of society are all possible outcomes of this theory and need to be considered. Furthermore, institutional logic integrates structural, normative, and symbolic dimensions of institutions, which link individual agency, cognition, and socially-constructed institutional practices and rule structures (Thornton & Ocasio, 2008). Institutional logic attempts to discover and understand individual and organisational behaviours by allocating an appropriate social context. In turn, the key principle of institutional logics is that each order within society has both material and symbolic elements (Thornton *et al.*, 2012).

#### ***4.3.1. Principles of Institutional Logics***

Institutional logics can now be considered an important contemporary theory of institutional behaviour, which interests scholars of sociology, psychology, political science and anthropology (Thornton *et al.*, 2012). Its integration of knowledge provides a comprehensive understanding of institutional behaviours and the propensity to change or adapt due to environmental circumstances. A broad meta-theory underpins the development of institutional logics that enables illustration of the logic of action, identifying heterogeneities and stability and change in individuals and organisations. Thornton and Ocasio (2008) offered five principles of institutional logics.

a) Embedded agency

Institutional logic assumes that interests, identities, values, and assumptions of individuals and organisations are embedded within an institution (Thornton & Ocasio, 2008). An institution is purposed to become the boundary of opportunities and constraints.

b) Society as an inter-institutional system

The involvement of society is one important factor in institutional logic. Derived from Friedland and Alford's (1991) concept of society as a marketplace, Thornton (2004) elucidated six typologies of society: markets, corporations, professions, states, families and religions. These typologies represent a unique characterisation of agencies within societies, which represent a different set of social relations and behaviours. The represented logic can be derived from sources of heterogeneity and agency which are caused by a contradiction in different institutional orders. In addition, the institutional logics approach posits any context that constitutes contradiction from different societal sectors, rather than emphasising isomorphism and homogeneity in organisational fields (Thornton & Ocasio, 2008).



Thornton and Ocasio (2008, p. 104) described the importance of inter-institutional analysis as: (1) being non-deterministic, which means no institutional order takes priority over another, and (2) the analysis provides understanding of the institutional foundations of knowledge categories. Overall, the logic is revealed by an analysis of the agency's efficiency, rationality, participation, and values.

c) The material and cultural foundations of institutions

Materialism and symbolism are elements that distinguish institutional logics from its precursors in neo-institutional theory. Thornton *et al.* (2012) emphasise that institutional logics enable separation of symbolic interaction from structural mechanisms and effects, so this theory can be used to understand the cultural content of the organisational mechanisms. Material aspects can be described as the structures and practices, while the symbolic represents ideation and meaning (Thornton *et al.*, 2012). Both aspects are intertwined and concurrent of each other. Moreover, Friedland and Alford (1991) argued that in order to observe an institution, it requires identification of both material and symbolic aspects. They suggested that the production, marketing and services embedded in an institution cannot be separated from the symbolic artefacts of family and religion; and culture and social structures have influence in shaping such material consequences. The Institutional Logics approach attempts to integrate symbolic and material agencies in order to combine culture and cognition for providing strategy in how culture shapes action (Thornton *et al.*, 2012).

d) Institutions at multiple levels

In the development of institutional logic theory, the logic can be summoned from various levels of society. The multiple levels of analysis enable a researcher to observe individual behaviour and consciousness based on the level that an individual is 'nested' (Friedland & Alford, 1991). Hence, it is the 'individual' action that this theory is highlighting, whether or not the action of opportunity and constraint is embedded within the particular level. These levels can be organisational, markets, industries, inter-organisational networks, geographic communities and organisational fields (Thornton & Ocasio, 2008). In general, the multiple levels can be classified as three types: Macro, Meso, and Micro levels. The Macro-Societal level consists of the community logic that contributes to the inter-institutional system; the Meso represents the organisational level, and the Micro level emphasises individual logic. As mentioned earlier, the three

levels do not stand on their own but rather as an inter-institutional system that correlates closely and generates logics within the organisation.

e) Historical contingency

The objective of acknowledging historical content in the institution is to explore the extent to which economic, political, structural, and normative impetus can affect individuals and organisational logics (Thornton & Ocasio, 2008). It is believed that by understanding historical contingency as the source of logics, an institution can be best understood through tracing the history of development and important milestones.

#### ***4.3.2. Mechanisms of organisational change***

In order to conceptualise and describe institutional logics as a system of analysis, this framework produces three possible mechanisms of organisational change: institutional entrepreneur, structural overlap and event sequencing. Each mechanism of change is described below.

i. Institutional entrepreneur

According to DiMaggio (1988), institutional entrepreneurs are agents that create new and modify old institutions because they have access to resources that support their self-interests. In an inter-institutional system, the opportunity to possess the resources is the key logic to organisational change according to the agency's differentiation, fragmentation and contradiction of different social contexts.

While DiMaggio and Powell (1983) suggested that institutional isomorphism is pursuing legitimacy, here the institutional entrepreneur oversees the extent to which actors and agency create opportunities to gain resources of material and cultural symbols (Thornton & Ocasio, 2008). Moreover, the cultural symbols of actors can be represented in people's motivation and mobilisation, strategic decisions, a toolkit approach and justification of action.

- ii. Greenwood and Suddaby (2006) employed institutional entrepreneurship to observe organisational change in accounting firms. Their study focused on embedded agency, explaining how actors effect changes by which they are shaped. The institutional entrepreneur acknowledges the force of agency, which allows actors to be self-driven, aware, and calculative; rather than taken-for-granted as argued by neo-institutional theory. In a mature organisational field such as accounting firms, the multidisciplinary practices that are embedded in these firms are the consequences of four dynamic

changes: adverse performance, boundary bridging, boundary misalignment and resource asymmetries.

In general, the four forces are due to trade-offs or tension between market discipline and the need for social legitimacy (Greenwood & Suddaby, 2006). The authors argued that institutional entrepreneurship provides a fruitful understanding that organisational fields are not homogeneously structured. These firms are found to become distinct in accordance to the communities and network locations, which eventually influence actors' embeddedness and behaviour towards institutional changes.

iii. Structural overlap

Structural overlap can be inferred when individual roles and organisational structures and functions that were previously distinct are forced into association (Thornton, 2004). One example of structural overlap is the mergers and acquisitions of two or more companies that create an association of different organisational cultures. Such an overlap can provide the logic to generate institutional change. Thornton *et al.* (2005) provided an example whereby accounting firms which incorporate management consultants into their organisations then force a structural overlap. The institutional change occurs when the focus of attention is shifted from the previous fiduciary logic of overseeing public interest to a corporate logic of preferring client consultancy.

iv. Event/ Historical sequencing

Event sequencing can be described as “the temporal and sequential unfolding of unique events that dislocate, rearticulate and transform the interpretation and meaning of cultural symbols and social and economic structures.” (Sewell Jr, 1996, p. 844) Structures are often overlapping, and such dislocation of an event can create multiple changes, and be influenced by an actors' emotion, collective creativity, and rituals (Thornton *et al.*, 2005; Thornton & Ocasio, 2008). Hence, the overlapping events in an organisation can generate logics of institutional change.

v. Thornton and Ocasio (1999) illustrated the importance of a historical event in determining institutional logic in a higher education publishing industry. They investigated whether executive power and succession in this industry is influenced by the logics pertaining between editorial and market logics. In the 1950s and 1960s where editorial logic was dominant in the publishing organisations, executives were concerned with the author-editor relationships and internal growth, and the leadership succession was determined by organisation size and structure. During the 1970s, such

publishers illustrated changes of orientation in the publishing industry, from professional- to business-oriented.

The market logic, in this sense, shifted executive-as-actors, to focus on resource competition and acquisition growth, while the leadership succession was based on the product market and the market for corporate control (Thornton & Ocasio, 1999). The authors confirmed that event history/sequencing as logics promote different determinants of executive succession and power shifts.

vi. Competing Logics

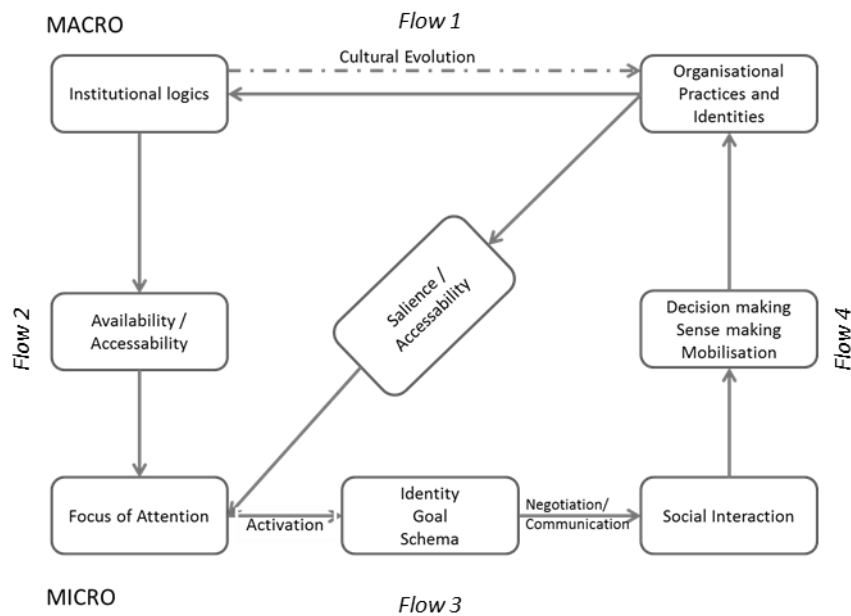
Competing logics exist when there is a competition between alternative institutional logics, which cause a variety of mechanisms such as environmental selection pressures, political contestation, and social movements (Thornton & Ocasio, 2008). Such logics that are generated from different societal orders contend with each other to shape variations in practice and behaviour of distinct groups of actors (Marquis & Lounsbury, 2007). Competing logics focus on two aspects: the strategy at a lower level of analysis such as organisational fields, and the higher level analysis such as institutional fields (Thornton & Ocasio, 2008). Both enable an institutional change.

On the other hand, competing logics facilitate resistance to change in an organisation, due to different goals and beliefs within the community. A case of Indonesian governmental accounting is an example of competing logics, where the process of accounting reforms in the government sector is driven by two competing logics: state agencies and the profession. In this case, both logics interact as rivalries, as well as allies during governmental accounting reforms (Marwata & Alam, 2006). However, the bureaucratic culture in the Indonesian government becomes the 'power' to generate resistance to change.

#### ***4.3.3. A Model of Institutional Logics***

Thornton *et al.* (2012) generated a model of institutional logics based on social actors embedded in social, cultural, and political structures. Based on the principles and mechanism of change, institutional logics incorporate social actors embedded in social, cultural, and political structures. These embedded factors eventually bring opportunities and constraints to the actors in conjunction with establishing identities and goals. Actors are exposed to multiple constructions of social networks and environments, while exhibiting multiple social identities and goals. Such circumstances create internal contradictions between multiple goals and

identities (Thornton *et al.*, 2012). This model disentangles various actors' goals by emphasising “situationism”; the influence of an immediate situation's characteristics on individual behaviours, located in both time and place. Figure 4.1 shows the interaction between macro and micro levels of institutional logics.



**Figure 4.1. A Model of Institutional Logics**

Source: Thornton *et al.* (2012)

The features of the framework are as follows.

- 1) The macro-to-macro effect consists of logics that are viewed as a set of rule-like structures that constrain an organisation. It connects institutional logics with organisational practices. Logic is viewed as a set of cultural rules or toolkits that provide opportunities for change in existing structures and practices. These rules are considered as the logic to the organisation practice.
- 2) The second flow illustrates the relationship between macro and micro levels to explicate cultural embeddedness. Actors are culturally embedded in dominant institutional logics. The focus of attention derives from the actors' logic that stem from organisation and its environment. Examples of such a focus of attention are market competition, hierarchical structure, executive succession, acquisitions and changes in organisational forms.

- 3) Within the micro-micro levels in Flow 3, the focus of attention derives from actors to execute organisational decisions and social interaction. Along the way, individuals possess multiple social identities, either as role identity or category membership. Category identity can be the social actor's industry, occupation or profession, employer, department, voluntary organisation affiliations, race, gender, ethnicity, nationality and geography (Thornton *et al.*, 2012).

On the other side, role identity can be described as an actor's social relationship with other actors such as CEOs, investors, managers and staff. These clusters represent multiple identities for each actor, which generate sophisticated logics upon each characteristic and can cause overlap amongst the roles. Goals, as the manifestation of focus of attention, derive from multiple identities. They possess cultural content which are influenced by time, plans and expectations for the future.

In this sense, the historical sequence lies within this flow and contributes to the development of the goals. By observing identities and goals, actors can consequently build a schema of decision-making and guidance. Identity, Goal, and Schema are logics embedded within each actor and consequently generate communication and negotiation of interaction among actors.

- 4) Flow 4 illustrates the outcome of such social interaction, which is derived from actors' micro-levels of interaction. The micro-macro level distinction eventually transforms into three possible outcomes: decision-making, sense-making and mobilisation. A decision-making perspective is defined as the process of examining actions and behaviours that have consequences beyond the immediate social interaction and leads to organisational decision (Thornton *et al.*, 2012). Sense-making is a process by which social actors turn circumstances into situations which are comprehended explicitly in words, and that serve as springboards for action (Weick, Sutcliffe, & Obstfeld, 2005, p. 409). The manifestation of communications allows sense-making to be generated, through which the organisation's practices come into evidence. Mobilisation is the process by which actors collectively acquire symbolic and material resources and motivate people to accomplish group or collective goals (Thornton *et al.*, 2012, p. 97). In sum, the three manifestations of social interaction is the bridge from micro- to macro-levels of organisational practices.

This model offers a contemporary framework in order to observe the dynamic changes of organisations and institutions. Based on Thornton *et al.* (2012)'s arguments, there are six advantages of accommodating institutional logics model.

- a) The model accommodates the taken-for-granted behaviour which is derived from the neo-institutional theory. It is the foundation of institutional theory to create rationality and stability of an institution (Meyer & Rowan, 1977).
- b) The model accommodates the roles of various social actors that are exposed to various institutional environments, in order to produce such logics manifest in the actions of the actors.
- c) The model allows differentiation in the prevailing logics within any organisation or institutional field.
- d) The model acknowledges the opportunity for cognitive changes in the organisational context.
- e) The focus of attention allows a top-down application of institutional logics with the bottom-up effects of situational features.
- f) The model considers the social interactions as the basis of generation and transformation or organisational practices, identities, and institutions.

Following the dynamic constructivism, the model is based on a notion that actors are situated, embedded and bound by institutional norms, which allows for consideration of taken-for-granted behaviour, agency and reflexivity.

#### ***4.3.4. Inter-institutional Systems Ideal Types***

Thornton (2004) initially provided a set of inter-institutional system ideal types, based on Western institutional orders and the categorical manifestation of individuals and organisations of their self and identity. The institutional orders consist of Family, Community, Religion, State, Market, Profession and Corporation, while the row sections In Table 4.1 show categories of how individuals and organisations are likely to understand their sense of self and identity: who they are, their logics of action, how they act, their vocabularies of motive, and what language is salient (Thornton *et al.*, 2012). The category consists of root metaphors, sources of legitimacy, identity, norms, and authority.

Moreover, the categorical element in the Y-axis is built upon multiple scholars in the social sciences: sociology, anthropology, archaeology, psychology, politics and economics, which

produce a comprehensive tool to observe multiple issues found in the Indonesian context. The table shows how the institutional orders presented in the X-axis are interrelated to the categorical elements in Y-axis. The outcome suggests a matrix of cultural symbols and practices that constitutes each of the respective institutional orders. Through these institutional orders, it allows each of the orders in the X-axis to complement or contradict.

As such, in explaining institutional change, it is expected that there will be a transposition among the institutional orders, affected by institutional entrepreneurs, structural overlap and event/historical sequencing (Thornton & Ocasio, 2008). These mechanisms are the key concept of institutional change, which may be implemented in the Indonesian case. Table 4.1 offers the ideal type of the inter-institutional system offered by Thornton *et al.* (2012).

Y-Axis	X-Axis: Institutional orders						
Categories	Family 1	Community 2	Religion 3	State 4	Market 5	Profession 6	Corporation 7
Root Metaphor 1	Family as firm	Common boundary	Temple as bank	State as redistribution mechanism	Transaction	Profession as relational network	Corporation as hierarchy
Sources of Legitimacy 2	Unconditional loyalty	Unity of will Belief in trust & Reciprocity	Importance of faith & sacredness in economy & society	Democratic participation	Share price	Personal expertise	Market position of firm
Sources of Authority 3	Patriarchal domination	Commitment to community values & ideology	Priesthood charisma	Bureaucratic domination	Shareholder activism	Professional association	Board of directors Top management
Sources of Identity 4	Family reputation	Emotional connection - Ego-satisfaction & reputation	Association with deities	Social & Economy class	Faceless	Association with quality of craft - Personal reputation	Bureaucratic roles
Basis of Norms 5	Membership in household	Group membership	Membership in congregation	Citizenship in nation	Self-interest	Membership in guild & association	Employment in firm
Basis of Attention 6	Status in household	Personal investment in group	Relation to supernatural	Status of interest group	Status in market	Status in profession	Status in hierarchy
Basis of Strategy 7	Increase family honor	Increase status & honor of members & Practices	Increase religious symbolism of natural events	Increase community good	Increase proficiency profit	Increase personal reputation	Increase size & diversification of firm
Informal Control Mechanism 8	Family politics	Visibility of actions	Worship of calling	Backroom politics	Industry analysis	Celebrity professionals	Organisation culture
Economic system 9	Family capitalism	Cooperative capitalism	Occidental capitalism	Welfare capitalism	Market capitalism	Personal capitalism	Managerial capitalism

**Table4.1. Inter-institutional System Ideal Types**

Source: Thornton *et al.* (2012)

#### 4.4. Studies of Institutional Logics in Accounting Research

Prior to employing institutional logics as a theoretical background, accounting research examined various organisational institutions in relation to accountancy. This section elaborates some of the studies of accounting and institutions prior, and subsequent to, institutional logics.



#### ***4.4.1. Precursor Studies of Accounting and Institutionalisation***

The main motivation of such studies is to connect accounting, which was previously thought of as a set of techniques to generate, process and evaluating information, evolving into recognising the relevance of power, conflict, rationality, governance and organisational behaviour (Carruthers, 1995). Accounting has become not only a ‘technical tool’ of decision-making, but also sets ‘rules and routine’ which influence accounting practices within an organisation and its members (Lounsbury, 2008). Hence, this section explains accounting, organisations and institutions as being mutually constitutive (Chapman, Cooper, & Miller, 2009).

Several accounting studies have employed institutional theory as a guide to examining the social context of such areas as financial accounting (Carpenter & Feroz, 2001; Fogarty & Rogers, 2005); management accounting (Burns, 2000; Burns & Scapens, 2000; Hopper & Major, 2007; Siti-Nabiha & Scapens, 2005) and organisational case studies in audit firms (Carpenter & Dirsmith, 1993; Dirsmith, Heian, & Covalleski, 1997; Greenwood & Suddaby, 2006). The expansion of institutional theories and practices has served to extend accounting research and transform its development into a wider perspective.

##### *4.4.1.1. Old Institutional Economics (OIE)*

The study of management accounting and organisation institutionalisation have focussed on the accounting routines and their effect on intra-organisational change (Burns, 2000; Burns & Scapens, 2000). The old institutional economics (OIE) is a framework used to assist a researcher in understanding changes in management accounting (Scapens, 1994, 2006). Nonetheless, some scholars attempt to employ this framework in audit professionalism. One example of an OIE study in audit practice was a study by Carpenter and Dirsmith (1993), who examined the efficiency and effectiveness of independent audits by observing the socially constructed and influential legitimacy practices. Their study demonstrates the duality between technicality and the institution intertwined in a socially-constructed process. The institutionalisation process of creating reality consists of three “moments” of analysis: externalisation, objectifying, and internalisation. Externalisation describes how audit practitioners undertake actions shaped by the everyday exigencies of their task domain; objectifying relates how those practitioners interpret these exigencies as having an external and objective reality. Auditors often face an imbalance between professional objectives and the practices dictated by client pressures and the cost of audits. They are thus forced to modify and

compromise their objective judgements by altering professional objectives and finding a discourse that shifts the responsibility for fraud to “others”. The third “moment” is internalisation, where they reflect this action into a consciousness and objectified reality to regularize and rationalize their everyday actions.

The three institutionalisation processes illustrate that the audit professions have to redefine the jurisdictional domain of the work performed on society’s behalf, as well as the norms and standards of conduct that direct the professional behaviour. This study admits the power of individuals, in this case auditors, to develop and refine the techniques capable of supporting this new domain, and delimits models of bureaucratic structure and policy that would remain unquestioned (Carpenter & Dirsmith, 1993, p. 53). The central issue to this study is that of the auditors’ legitimacy and identity in that organisation.

#### 4.4.1.2. New *Institutional* Sociology (NIS)

The New Institutional Sociology (NIS) was introduced to accounting fields as a response to a wider need to explore further possibilities that could influence the institutional fields’ parameters. Originating from scholars such as Meyer and Rowan (1977) and DiMaggio and Powell (1983), it focuses on three concepts: institutional rules, legitimacy and isomorphism (Thornton *et al.*, 2012). The NIS attempted to plot the three levels of society that interrelated with each other. Dillard *et al.* (2004) as well as Hopper and Major (2007), employed these levels to observe institutional processes: the Economic and Political level, the Organisational Field level and the Organisational level.

##### i. The Economic and Political level

The top level represents the overarching level of political, economic and social systems. There are the norms and values embedded in this level.

##### ii. The Organisational field level

Meyer and Rowan (1977) defined organisational field as organisations that constitute a recognised area of institutional life, such as key suppliers, resources, product consumers, regulatory agencies and competitors. This level also includes socio-economic configurations such as industry groups, professional institutes, or geographical collectives.

##### iii. The Organisational level

This level is conceived to be the ‘focus’ of institutional process which consists of routine practices conducted by actions of organisational actors.

The above levels of observation enables a researcher to scrutinise factors embedded in the respective levels. Moreover, these dimensions, which anthropologists and sociologists also recommend, can observe how culture (norms and values) shape accounting practices (Lounsbury, 2008).

Institutional theory has been used as a framework to investigate institutional change in accounting firms. These firms have evolved through time in order to adapt, with the complexity of political, regulatory and technological changes (Greenwood & Hinings, 1996). Some changes are due to firms’ expansion in response to client demands, which inevitably create new services complementing the solely audit ones. Greenwood, Hinings, and Suddaby (2002) investigated Canadian accounting firms from 1977 to 1997 where the firms pursued three sets of services: audit and accounting, tax and insolvency. These accounting firms gradually made adjustments by providing management advisory services on a minor scale, but it became the primary business activity in the 1990s. Eventually, the firms employed a number of staff from non-accountant backgrounds and extended the role of a professional accountant to provide business advisory services (p.64). Institutional change could not be avoided and thus radical changes had been made to cope with current markets in audit.

One of the factors not taken into consideration in this theory is whether national culture constitutes a dominant external factor. National culture has been considered to have a significant effect on management accounting or audit technique (Barrett, Cooper, & Jamal, 2005), and yet the need to identify its appropriate function in the institutional practices remains. Countries such as Indonesia, which have a multi-ethnic characterisation, may demonstrate that culture is an important aspect in delivering such understandings in institutionalisation. As Carruthers (1995) suggested, in order to determine an institution’s manner, one must embrace the importance of cultural and political processes and how social actors constitute their social world. Kirsch, Laird, and Evans (2000) support this useful view of cultural contexts:

Cultural considerations were very important in determining the professional services to be offered. The governmental regulatory environment influences accounting standards. As these emerging markets move from command economies to market and/or mixed economies, accounting standards must evolve and keep pace with the socio-economic changes (p.117)

Many studies in management accounting that employed OIE focused on investigating micro-processes in an organisation; i.e. studies focus on how accounting systems are shaped by intra-organisational dynamics (Lounsbury, 2008), wherein many accounting researchers began to have interests in investigating both internal and external values of an organisation and how accounting influences and is influenced by any such changes. Siti-Nabiha and Scapens (2005), for example, investigated the extent to which a new system of value-based management (VBM) was introduced, and how the accounting change can decouple the key performance index (KPI) from day-to-day activities. They attempted to secure legitimacy from the external shareholders, but on the other hand, “decouple them from day-to-day operations in order to maintain technical efficiency of the organisation.” (Siti-Nabiha & Scapens, 2005, p. 48) They used both the old institutional economics (OIE) and the new institutional sociology (NIS) to elaborate impacts from external as well as internal factors. In turn, the result shows that decoupling is the result from internal and external institutions that shape management accounting change in the organisation.

Studies in auditing have utilised NIS to understand the impact of external factors, such as political economy, institutional fields, and institutional legitimacy. Many studies focused on understanding the structuration process (Barrett *et al.*, 2005; Dirsmith *et al.*, 1997), and institutionalisation in audit firms (Carpenter & Dirsmith, 1993). Nonetheless, these studies failed at times to incorporate multiple levels of analysis in an institution that implicitly occurs in a current situation (Thornton *et al.*, 2005). This is because organisational change can originate from the centre of the organisation rather than at the periphery of a highly institutionalised field (Greenwood & Suddaby, 2006). Thus various approaches such as historical sequence, societal-level, and organisational actors’ perspective are included (Thornton & Ocasio, 2008).

Also, Dillard *et al.* (2004) argued that ‘conventional’ institutionalism provides an explanation of the various changes at an organisational level but fails to explicate higher levels of social, political and economic issues. Although it seems obvious that the new institutionalism integrates political and cultural features by separating technical facets, it does not address the means by which actions at the organisational level may influence the institutional context at the organisational field level or a societal level (Dillard *et al.*, 2004, p. 511). Hence, it is important to probe the relation of practices to logics that can accommodate societal-level culture on cognition and behaviour of individual and organisational actors (DiMaggio, 1997).

#### ***4.4.2. Studies of Institutional Logics in Accounting Research***

Lounsbury (2008) argued that institutional researchers are required to go beyond intra-organisation structuration, such as external pressures, which he believed to be an important part of contemporary institutionalisation. He thus proposed that a new emphasis on multiple logics and forms of institutional rationality is needed to ensure an appreciation of broader cultural frameworks in future applications of institutional theory. These frameworks are able to accommodate cultural changes created by field-level actors, as well as the lower-level activities of organisations (ibid p.357). Moreover, many scholars started to appreciate the importance of understanding the influence of both nation states and cultural groups, and thus the cultural context of accounting processes. Studies in auditing began to utilise institutional logics as the framework to examine the level of professionalism.

A study of accounting firms by Lander *et al.* (2013) examined how mid-tier accounting firms deal with changes in their institutional environment. Using institutional logics, this study developed two logics: trustee logic (quality standard and professionalism) and commercial logic (profitability-oriented). The rational responses to these institutional logics are provided in four strategic responses, based on the instrumental approach by Oliver (1991) and Lander *et al.* (2013). These institutional responses are:

- (1) Acquiescence: holding to the professional/trustee logic to action;
- (2) Compromise: reconciling both trustee and commercial logics to action;
- (3) Defiance: challenging trustee logic and following new commercial action, and
- (4) Manipulation: if the action went beyond what is demanded and change the logic to their standards.

Their findings suggest that for mid-tier firms, there has been a change of role of the auditors, as well as organisational structure and practices. Nonetheless, the auditors were reluctant to perform such changes of professional identity.

Thornton *et al.* (2005) provided a clear framework that can be used in analysing accounting firms. They argued that accounting firms had transformed the previous fiduciary logic into a corporate logic. The former represents a logic designed to protect the public interest from market opportunism, while the latter signifies a corporate nature such as seeking profit maximisation. Under the fiduciary logic, an accounting firm can be seen to be very similar to

other professions such as educators, priests, lawyers and physicians who dedicate themselves to the community interests. An accountant thus retains legitimacy and is able to verify a client's financial statements without interference from other parties or regulators. Moreover, this logic emphasises the importance of reputation, standardisation and conservatism within their ideology, while also honouring the professional codes of ethics and obligations to state audit regulations.

On the other hand, corporate logic projects an identity in which accounting is an industry and attention is focused on selling services and generating profits (Zeff, 2003b). Moreover, the managing partners are required to maintain steadily increasing income, forcing auditors to 'sell' their product, instead of dictating the standards (Zeff, 2003b). To summarise, this differentiation in such logic is provided in Table 4.1 as follows.

The table simplifies a dichotomy of institutional logics in accounting firms. Note that the bottom three characters are features of changes in institutional logics: institutional entrepreneurs, event sequencing and structural overlap. Institutional entrepreneur posits that an agency which possesses resources to support its self-interest can influence the current set of order and create a new one (DiMaggio, 1988). In other words, a human agency such as a person or a group of people has the power to produce and reproduce a setting of entity based on the sense of logic he/she possesses. In this case, the early formation of the Big-4 firms was originated by founding father personalities, and accountants who institutionalised fiduciary logic within the professional partnership. Waterhouse, for example, outlined the principles of audit ethics for the US accounting profession, while choosing to have his firm expand with business-advisory services. His insistence on maintaining accounting professionalism created an increase of customer demands, from the large railway corporations to banking and financial institutions. Thus by reflecting a fiduciary logic, Waterhouse successfully established principles of honesty, ethical behaviour, independence and objectivity into the US accounting profession. (Thornton *et al.*, 2005).

<b>Characteristic</b>	<b>Fiduciary Logic</b>	<b>Corporate Logic</b>
Economic systems	Personal capitalism	Managerial capitalism
Sources of identity	Accounting as a profession	Accounting as an industry
Sources of legitimacy	Reputation of CAs standardisation and conservatism	Scale and scope of firm activities
Sources of authority	Local professional associations Government regulation International bodies (IFAC etc.)	Management committee Managing /Technical partners Government regulation? Really?
Basis of mission	Build legitimacy of public trust entity Build reputation of partnership	Build long term stability of firm and client base. Build status /reputation of firm through growth
Basis / focus of attention	Maintaining legitimacy	Selling services and assurance Generating profits
Basis of strategy	Prepare and offer assurance on client financial statements; growth through mergers	Growth through mergers and acquisitions Differentiate on client services and sector specialisation
Governance mechanism	Partnerships and LLPs	Private corporation Majority CPA ownerships
Institutional entrepreneurs/founding fathers	British: Waterhouse, Young, American: Haskins, Sells, Andersen, Ernst, Whinney	Big-8 (now Big-4) accounting firms
Event sequencing	1896-1921 CA legislation; 1933 & 1934 Securities acts; 1938 SEC accounting series release no. 4 <sup>9</sup>	World War II 1965-1975 Consolidation to Big-8 1980s-1990s Consolidation to Big-5 2001 Enron collapse & Andersen bankruptcy
Structural overlap	CPA - Lawyers in tax practice	CPA – consulting CPA – lawyers in tax practice

**Table 4.1. Institutional Logics in Accounting Firms**

Adapted from Thornton *et al.* (2005)

In terms of event sequencing, there is a clear indication that fiduciary logic in accounting firms appeared prior to World War II, when the State of New York officially announced legislation

<sup>9</sup> The event sequencing suggested by Thornton *et al.* (2005) was based on US examples

to support the accounting profession in the US. It was in 1887 that 31 accountants had established the American Association of Public Accountants (AAPA) which was the forerunner of the American Institute of Certified Public Accountants (AICPA). This professional body significantly influenced both the profession and the New York State, and eventually promoted the first CPA accreditation to become legislation in New York in 1896 (Dennis, 2000). 1933, and the support from the profession in 1938 to require independent audits by certified accountants, marked a further milestone in the US accounting profession. In turn, the fiduciary logic remained strong in this period, with a spirit to maintain accounting professionalism ‘at its best’.

The aftermath of World War II marked the beginning of corporate logic in accounting firms. The main purpose for these entities was driven by services marketing and the US Federal’s reconceptualisation of public accounting firms (Thornton *et al.*, 2005). As such, any interest to protect public trust began to diminish as the demand for consultancy and Trans-Atlantic expansion increased. Structural changes in an organisation, where accounting firms had shifted their business associations from a local-oriented networking to a global professional network also occurred (Brock, 2006). These structural changes may have been caused by external factors such as: professional market deregulation and competition; financial and cost constraints; government policy changes; globalization of the client’s industry, and changes in technology in accounting practices. However, most partners of these increasingly global firms appeared to have embraced this willingly and, as a result, management structures, functions and systems have also changed.

Mergers of major accounting firms such as those causing the Big-8 to reduce to the Big-5 and eventually to the Big-4 (after the collapse of Enron and Arthur Andersen in 2001) are some examples that the basis of strategy in a corporate logic is to generate profit and growth through mergers and acquisition. In the past 30 years, this logic transformation has created challenges to the professional identity of auditors provoking some ambiguity and contradiction between the ethical standards of their profession and to provide an accounting service, as well as meeting the obligations of their firm’s targets in the globalized form of business service firms. This logic results in the logic of corporate structures and philosophies flourishing in 21st Century accounting firms.



#### ***4.4.3. Studies of Institutional Theory in Indonesian Accounting Research***

Recent studies in the Indonesian institutional context have been concerned with public sectors and governmental accounting changes. Harun Harun, Van Peurseem, and Eggleton (2012) investigated the institutionalisation of an accrual accounting system in the Indonesian public sector. Based on the NIS model, this study reveals that the implementation of accrual accounting systems in municipal government cannot be isolated from the broader economic and political reforms undertaken by the national government. After the fall of Suharto's regime and the reformation period in 1998, changes in regulatory domains affected governmental accounting standards and rules, which forced municipalities and public-owned organisations to adapt new accounting standards.

Harun Harun *et al.* (2012) found that the institutionalisation of an accrual accounting system in the municipal entity is "far more complex and its road less straightforward than its idealists may have envisioned" (p.279). This is because of the lack of knowledge and the unwillingness to change were factors that led most governmental staff in these municipal entities to resist the accrual-based reporting systems. One reason for this is the strong bureaucratic culture within the institution that resisted changes of systems (Marwata & Alam, 2006). Another reason is the frequent bribery occurring in the previous processes of financial report preparation as part of government tendering projects, which consequently caused poor financial management practices and unauthorised use of funds (Harun Harun *et al.*, 2012).

In many cases, the Indonesian governmental accounting has demonstrated that its public sector institutions have a high level of resistance to change. Marwata and Alam (2006) described three important points regarding Indonesian governmental accounting. Firstly, the institutional environments are very complex, in that agencies have different characteristics of accounting change. Secondly, there are differences in institutional values, beliefs and arrangements between developed and developing countries. This is due to historical and socio-political origins which may be different to those in developed countries.

The differences may include an orientation of accountability influenced by past political regimes (Sukarno's old-order regime and Suharto's new-order regime). Thirdly, the bureaucratic regime still held power in the policy-making process. This eventually compromised the effectiveness of new accounting changes in the public sector. Overall, the study reflected that the state institutional order has stronger influence than the Indonesian accounting profession. As explained earlier, the reform drivers as competing logics exist

between the government, dominant in the accounting policy area, and the Indonesian accounting profession, which supports the technical knowledge of accountancy. Both parties interact as rivals and allies during the process of reforms.

## **4.5. Institutional logics as a framework of this study**

### ***4.5.1. Why use Institutional Logics?***

Institutional logic was previously introduced as an alternative to the dominant perspective of neo-institutional theory. Friedland and Alford (1991) initiated this concept, arguing that institutional logics can motivate and guide research questions at both the micro and macro levels of analysis (Thornton *et al.*, 2012, p. 4). In addition, current neo-institutional theory pays less attention to scrutinizing actors' or agency interests, where isomorphism is considered 'invariant and rigid' as a result of structural rationalisation (Friedland, 2012). As such, institutional logics attempt to position an "agent" or "actors" as an important aspect in a societal context. By placing the logic back in the actor's perspective, it is likely that institutional change can be due to a variety of cultural norms, symbols, and practices, in various institutional orders (Thornton *et al.*, 2012). These practices can be determined from the actor's thoughts, beliefs, and decision-making, in the particular organisation.

Institutional logic starts with a notion that in order to understand individual and organisational behaviour, the set must be located in its designated social and institutional context, which consequently influences behaviour and provides an opportunity for agency and change (Thornton & Ocasio, 2008). In this sense, the theory assists the researcher to scrutinise how individual and organisational actors are influenced by multiple social situations. The inter-institutional system provides institutional orders that characterise actors' principles, practices, and symbols of individual and organisational behaviours (Thornton *et al.*, 2012). Thus, institutional logics offers a framework that uncovers actors' rational choices of sense-making, and self-identity shaded in a particular set of entity and environment.

In relation to this study, institutional logic is appropriate to examine the Indonesian setting of an organisational culture, in that multiple social interactions may be scrutinised. A firm, such as the KAP accounting firm, is believed to be exposed to multiple social structures and agencies. The level of analysis in such a multinational corporation (MNC), including the Big-4 firms, has forced this researcher to employ a framework that can accommodate various cultural expositions, which eventually occurred by scrutinising the relationship between

individuals and organisations. One possible exposure is the triple connection among the foreign accounting firm, the local accounting firm and the Indonesian cultural context. All elements provide a unique character of cultural content, as well as social interaction between these entities.

Kostova, Roth, and Dacin (2008) addressed some of the issues in analysing a MNC using the traditional neo-institutional theory. Firstly, they argued that the organisational fields do not exist in the MNC context due to different spatial, language, cultural, and organisational settings that differ between countries. A different environment may cause a different setting of organisational fields which preclude sufficient inter-organisational interactions. Issues such as national pride, national stereotyping, constructing managerial identities and political decision processes are some of the elements that construct the organisational field in an accounting firm (Cooper, Greenwood, Hinings, & Brown, 1998). This requires a broader concept that can absorb greater cultural beliefs and rules as the guidance to actor's decision-making in the field (Lounsbury, 2008). Such a setting suggests a field that operates to particular rules, logic, and norms which differs according to a country's norms and legitimation. As such, institutional logic helps detect this phenomenon.

Secondly, the neo-institutional theory treats isomorphism as a consequence of institutional change. Kostova *et al.* (2008) argued that in a MNC, isomorphism is unnecessary due to the unclear definition of the organisational field at the meso-level. Moreover, they also argued that there are pressures from the host country, but such pressures are rarely derived from local isomorphism. It is believed that within this context, the organisational field is rarely influenced by a single dominant logic, and multiple logics may be detected (Lander *et al.*, 2013). Such logics originate from the country's regulatory and legal influences, which perceive that the local institutional environments may limit its capacity to enforce accounting firms' isomorphism.

The question is if the setting of the organisational field can be understood from a local perspective, (an emic position of the researcher) in a specific country such as Indonesia. The meta-theory of institutional logic underpins the logics of action that constitutes heterogeneity, stability and change within individuals and organisations at multiple levels (Thornton & Ocasio, 2008; Thornton *et al.*, 2012). It is expected that the framework will address the need to understand the character in the organisational field, as well as other levels of analyses.

In sum, the application of institutional logics contextualizes fields as systems of shared meaning that occur as actors coalesce around issues and shared logics. Central to this institutional process are social agents, both internal and external, to the organisation. The application of institutional logic is proposed to identify the ideal types of this type of organisation, so that the framework enables to absorb elements that reflect a specific country's norms and values. Doty and Glick (1994) argue that the concept of institutional logics is appropriate as a typology in the analysis. Typologies were differentiated from classification systems because typologies identify ideal types of organisations, whereas classification systems specify decision rules to categorize organisations into mutually exclusive and exhaustive sets. In the case of KAP, the researcher is sought to discover possible multiple patterns of constructs, as well as nonlinear relationships within the organisation. The theory offers flexible relationships from the logics and also the drivers motivating the actors.

#### ***4.5.2. Challenges when applying Institutional Logics in an Indonesian accounting firm.***

There are two challenges when applying the institutional logics as the framework of this study. Firstly, in utilising such research frameworks and approaches, many references are derived from the Western point of view. An argument may well be offered that models of organisational cultures, combined with measurement using Hofstede's 'Cultural Dimension' and Gray's 'Accounting Values', stem from Anglo-American and Continental-European accounting perspectives respectively (Heidhues & Patel, 2011). Moreover, Ailon (2008) argued, there has been a Western bias in the development of cultural/societal theorising, and such research may capture embedded racial and colonial biases. On a larger scale, Jung *et al.* (2007) inventoried 70 instruments of organisational culture with the largest number originating from the US and UK. Only one was developed in Asia (Hong Kong) and only three instruments have been used for international /cross jurisdictional studies. This indicates that most of the instruments are biased to a Western perspective, which might be less accurate in understanding organisational culture in developing countries.

The same circumstances happen in institutional logics, where the predetermined formation of institutions originated from the 'contemporary capitalist West' (Friedland & Alford, 1991). Their first proposal of types of logics were capitalist market, bureaucratic state, democracy, nuclear family and Christianity. The later development by Thornton *et al.* (2012) emphasised an extended version of the theory, offering five institutional orders which originated from their Western empirical evidence.

Secondly, it is inevitable that private and public organisations are continuously changing their structure and business models due to the impact of market competition, globalisation and expansion of information technology (Cooper & Robson, 2006). Due to these and other internationalisation and globalisation processes, there has been a change in inter- as well as intra-organisational institutions. When studying organisational cultural change, anthropological perspectives are able to contribute a better understanding of such processes, which include power, cultural fragmentation, ambiguity and complexity (Baskerville, 2010).

A number of studies of accounting firms was done in conjunction with the shift between two logics. Evidence by Thornton *et al.* (2005) and Lander *et al.* (2013) concluded two logics movements; from fiduciary to corporate and trustee to commercial logics, respectively. Although the numerous accounting research models and methodologies are driven by Western hegemony, this study may result in a different direction based on a specific cultural understanding; one which anthropologists often propose as ‘living in their world’ (Geertz, 1973). Further scrutiny is needed to understand the firm’s institutional change to a variety of heterogeneous directions, particularly those in the Indonesian context.

Overall, the institutional logic framework offers a concept that absorbs multiple analyses based on a broad meta-theory. A basic five principles; namely embedded agency, inter-institutional system, material and symbolic elements, multiple levels analysis and historical contingency, are the foundations of analysis when scrutinising various logics of individuals and organisation. Moreover, this framework does not claim to be an exhaustive theory; Thornton *et al.* (2012) argued that the previous elemental categories were of instantiation based on a specific empirical evidence. This gives more space to explore the possibility of developing an ideal type and typology that represents the Indonesian context. In addition, transforming from the Western-biased into an ‘actor-centred’ paradigm based from an indigenous perspective may eventually produce a holistic overview of organisational culture which contributes to ‘new’ multiculturalism perspectives on organisational culture.

#### ***4.5.3. Criticisms of an Institutional Logics Perspective***

This researcher also acknowledges criticisms addressed towards institutional logics. Hence, this next section elaborates some of the issues that enable the researcher to contemplate some of the areas that may not be captured by employing this theory. Cooper, Ezzamel and Willmott (2008) argue Institutional Theory views the social matrix within an organisation as homogenous in form and practice, whereas there is a possibility that the institutionalisation is

a result of domination and oppression from one dominating powerful group. A researcher must be aware that by applying Institutional Logics, all revelations from the findings are presumed to be a 'consensus' driven by a homogenous manifestation shown by individuals. Social interactions, as argued by Cooper *et al.* (2008), demonstrate various patterns that may be accounted for either as a homogeneous or a heterogeneous value of 'choices', in making sense of the world, in particular 'power'. This is also confirmed by Friedland (2012): that Institutional Logics tend to avoid such heterogeneities that separate the "rational and the non-rational, the technical and the cultural, and the material and the ideal" (2012 p. 585). All logics are treated as being of 'equal' impetus to the extent that cultural symbols and materials are placed as a single driver to such behaviour and other manifestations.

As such, the researcher confirms that justification is needed to employ the selected theoretical background that underpins this research. In deciding the appropriate theory, as previously mentioned in section 4.5.1, Institutional logics enabled the identification of multiple social phenomena in an organisation. Moreover, as the foundation, Institutional Theory is considered conservative, as it inclines to naturalise the *status quo* and attempt to disregard any oppressive motivation (Cooper *et al.*, 2008). Critical theorists, on the other hand, view normative institutions as an oppressive in motive, alongside political conflicts that drive the changes. The different orientation between institutional and critical theorists leads to different analysis and questions regarding one organisation (Lounsbury, 2003). In addition, Cooper *et al.* (2008) argue that institutional theorists prefer to develop their work in relation to rational choice theory, contingency theory and resource dependency theory. Hence, this study does not intend to further scrutinise the extent to which domination of political motivation occurs amongst such cultural unveiling in Indonesian society, but also acknowledges an appreciation of these other perspectives.

## **4.6. Conclusion**

There are two important assumptions that will be further developed in this research:

Firstly, the development of institutional theory has influenced the study of organisational behaviour in accounting. Several studies suggest that due to the complexity of an organisation, especially accounting firms, a comprehensive framework is required that accommodates changes of logics within the organisation. A holistic perspective is needed to ensure that an accounting firm in a particular country can be observed based on its external and internal

factors and, more importantly, the influence to audit professionalism can be detected. Institutional logic is a framework that enables identification of elements that convey different characteristics and approaches when observing institutional change in a particular country such as Indonesia.

Secondly, it is believed that the above analysis can generate a plausible understanding of institutional processes in Indonesian accounting firms. A previous study by Barrett *et al.* (2005) had analysed dialectic processes of globalization in audit firms. That paper presents an interconnection among global/local management processes, the adoption and risk of accommodating global systems into the local firm, and communication and “controlling” issues. However, when utilising institutional logic, one must consider the local cultural factors intuitive to the actors. Studies in institutional logics have connoted rationality from a “Western” perspective (Friedland & Alford, 1991; Thornton *et al.*, 2005; Thornton & Ocasio, 2008), whereas in a different nation, local and national cultures may have been less appreciated. Nonetheless, by employing Thornton and Ocasio’s institutional logics, this study will identify which national cultural elements can be detected as logic in the Indonesian organisation. There is a broad scope for this and other research to explicate such elements in both local and global contexts. Understandings of the interrelationships and dialectic of global/local tensions will benefit from the essential ‘touch’ of understanding how the local ‘cultural contexts’ affect professionalism in Indonesian accounting firms.

## **Chapter 5**

### **Research Method**



## 5.1. Introduction

"The final goal ... is to grasp the native's point of view, his relation to life, to realise his vision of his world." (Malinowski, 1922, p. 25)

In 1914, Bronislaw Malinowski visited a cluster of islands near Papua New Guinea called the Trobriand Islands, which turned into an odyssey for him for many years. He spearheaded a revolution in anthropology, having left the comfort of Europe to live with and study the natives of a Pacific Island society. Most anthropological studies at that time were based on 'arm-chair' observations and Malinowski turned upside-down the paradigm of studying human behaviour and culture 'from a distance'. Following Franz Boas, he argued that to learn about one particular culture, one must be immersed into that society or culture and understand the behaviour and meanings of all actions by the 'actors'. During his study of the Trobriand Islanders, he argued that the so-called "the primitive savage life" of the tribe has similarities to what was then 'modern' society. He posited, "[the tribe is] conniving, manipulative [and] industrious, like any Viennese businessmen. And the constitution of the tribe is subject to a strict code of behaviour and social niceties" (Malinowski, 1922). His method of ethnography changed the philosophical constitution of cultural anthropology, where being an observer (or participant observer) in the field allows one to reveal the previously untold stories and meanings within a cultural context.

This chapter describes the research method being an observer in the field, in this study. Methods are techniques or procedures used to gather and analyse data related to the research question or hypothesis (Crotty, 1998, p. 3). This study employs qualitative research, which defines as "an approach for exploring and understanding the meaning individuals or groups ascribe to social or human problems" (Creswell, 2014, p. 4). The purpose of qualitative research is to obtain an in-depth understanding of human behaviour and it emphasises the socially-constructed nature of reality. In addition, this study offers perspectives derived from an indigenous point of view, in order to reveal new phenomena that have not been discovered by Western perspectives.

This chapter starts with the rationale of employing a qualitative approach for this study, followed by a description of the research site and accessibility. The research design section outlines the research phases and data collection method. The data analysis section explains four

activities of analysis subsequent to data collection. The role of the researcher in this study is also considered.

## **5.2. Rationale for a Qualitative Study**

A qualitative study in accounting relates accounting to social and organisational behaviour. A qualitative research method allows a researcher to observe people's behaviour, which is influenced by society and cultural beliefs (Efferin & Hopper, 2007). The historic origin of qualitative research comes from sociology, psychology and anthropology (Creswell, 2014): it enables the 'lived and human' experiences of accountants' in their societies and organisational context to be revealed. Qualitative research can capture aspects that cannot be considered in the positivist-based approach, such as accounting in the context of metaphors, rituals, symbols, values, norms and ideologies (Baker & Bettner, 1997). Some areas that employ qualitative studies in accounting include management accounting (Ahrens & Chapman, 2006; Dent, 1991; Wickramasinghe & Hopper, 2005), accounting and organisational change (Burns, 2000; Hopper & Major, 2007; Siti-Nabiha & Scapens, 2005), and auditing (Barrett *et al.*, 2005; Hudaib & Haniffa, 2009; Lander *et al.*, 2013). In terms of Indonesia, some scholars have investigated accounting and organisational change in public sector organisations (Harun Harun *et al.*, 2012; Marwata & Alam, 2006), in higher education (Wahyudi, 2009) and the influence of culture (Efferin & Hopper, 2007; Wahyudi, 2007).

In order to answer the research question, "To what extent do the values of the global professional network, as well as Indonesian national cultures, affect the manifestation of accounting professionalism within the accounting firms?" the researcher identified the appropriate research methods using Ferreira and Merchant's (1992) four characteristics of field study. This method is also aligned with Abbott (1988) in studying a particular professional site, such as an audit firm, and by using a case study, one can develop an argument based on the raw material from the field to apply the theoretical framing for the study.

The researcher has direct, in-depth contact with organisational participants. The purpose is to understand the local and global cultural factors which affect the audit professionalism in an accounting firm. Further scrutiny is needed in order to grasp the cultural background and opinion from the auditors.

The study focuses on real tasks or processes, not situations artificially created by the researcher. In this case, the researcher sought to gather information regarding auditor's perceptions of professionalism, and his/her social interaction in the accounting firm.

The research design is semi-structured. In qualitative research, a researcher gathers data by not manipulating the setting in the field. Qualitative researchers focus on the "socially constructed nature of reality, the intimate relationship between the researcher and what is studied, and the situational constraints that shape inquiry." (Denzin & Lincoln, 2011, p. 8)

The presentation of data should reveal rich descriptions of the company context and practices. In this sense, the indigenous perspective is an approach that allows indigenous scholars to describe phenomena that are special, meaningful, and logical in respect of indigenous peoples' own understandings of themselves and the world (Porsanger, 2004, p. 107). The researcher thus intends to illustrate the richness of Indonesian cultures and norms embedded in an International organisation from an Indonesian point of view.

### **5.3. Research Design**

In order to provide answers to the designated research question, the research design must be aligned with the research objectives. As mentioned, the research question asks whether Global Professional Networks ("GPN") and Indonesian national cultures may affect the enactment of accounting professionalism. Hence, the focus of the research site is on auditors and their professional behaviours. Selecting ethnography as the method, the researcher chose to exercise this in a Big-4 accounting firm, located in Jakarta, with a focus on the audit division. All methods will be described in each section below.

#### ***5.3.1. Ethnography and Indigenous Perspectives***

Ethnography is an approach for inquiry derived from anthropology and sociology which is intended to observe daily experiences of individuals which can include interviews. The reason to use the ethnographic approach as research method is that the researcher intends to study the shared patterns of behaviour, language, and actions of an intact cultural group in a natural setting (Creswell, 2014, p. 14). This methodology was partly initiated by Bronislaw Malinowski and is used to gather an in-depth understanding of a social construction: this method is appropriate in this study.

In order to enrich and gather data collection, the researcher offers a study from an “indigenous paradigm”, on how indigenous people think, and how things are perceived in their world (Wilson, 2001, p. 175). Such epistemology supports the researcher to understand a particular culture and norm, and reveals such phenomena from an indigenous perspective. An indigenous approach may be defined as an “ethically correct and culturally appropriate, indigenous manner of taking steps towards the acquisition and dissemination of knowledge about indigenous people” (Porsanger, 2004, p. 109). This researcher, who is of Indonesian origin, has an advantage of conducting a study of Indonesian culture in a way that he is able to define Indonesian culture and norms which may be different to those of Western scholars. In addition, the purpose of the indigenous approach is to ensure that the study on indigenous issues can be carried out in a more respectful, ethical, correct, sympathetic, useful and beneficial fashion, from the point of view of indigenous peoples (ibid). Hence, ethnographic methodology, combined with an indigenous perspective, may enhance the rich description of the Indonesian norms.

Data is collected from various sources, including documentary evidence, interview data, participant observation and direct observation (Smith, 2011). The researcher employed three data collections: interviews, participant observation and documentary analysis, while not choosing direct observation due to direct observation in the firm’s premises being prohibited. These data collections were used in two research phases, in order to reflect socio-cultural aspects within an accounting firm (Hudaib & Haniffa, 2009; Kosmala, 2007).

### ***5.3.2. Research Phase***

This section elaborates two research phases in this study. Phase One was considered a pilot study which is needed to ‘test the water’. This allows the researcher to detect some obstacles and to anticipate alternatives in the field in order to evaluate the proposed methods or instruments (van Teijlingen & Hundley, 2001). The second phase is the main data collection, which took place in one Big-4 accounting firm in Jakarta.

#### ***5.3.2.1. Phase One***

In Phase One, the researcher performed the pilot study as a small scale version or a pre-testing research to support the major study. One advantage in a pilot study is to alert the researcher of any obstacles that may occur during the major research phase. The main body of interviews were conducted in Binus University, Jakarta, and other venues such as the Indonesian

Accounting Association (IAI) and the Indonesian Institute of Certified Public Accountants (IAPI). There were 20 respondents, comprising accounting staff at the university, partners from small accounting firms and association executives, all from various ethnic groups. The primary focus in this phase was to ask general questions, such as about the working environment, professionalism, experience during tasks and educational backgrounds. This phase tried to foster a sense of trust between the interviewer and the interviewee, so that in the second phase the conversation becomes more open to personal issues. Phase Two was conducted over approximately two months in Jakarta.

In Phase One, the researcher also interviewed some Indo-Chinese colleagues to evaluate and fine-tune the questions used for further interviews. Asking an Indo-Chinese of his ethnic background and issues is considered sensitive in Indonesian society; hence the researcher ensured that the question is appropriate to this group. The pilot study resulted in selected interview questions being prepared for Phase Two.

#### **5.3.2.2. Phase Two**

The researcher prepared questions related to the most common issues revealed by staff in accounting firms. The interview questions concerned attitudes and perceptions, particularly ethnic/racial issues in the workplace. This research was conducted in one of the Big-4 accounting firms in Jakarta, Indonesia, where access was gained prior to the researcher's arrival in Jakarta. The timeframe of Phase Two was conducted from October to December, 2013. The key participants were partners, both local and expatriate, as well as senior managers, junior managers and junior auditors from every division in KAP. Table 5.1 shows the distribution of interviewees. This diversity of levels was expected to reveal cultural, professional and social interaction issues manifested by auditors within the organisation.

The major ethnic/background groups consisted of *pribumi*, Indo-Chinese and expatriates, but additional groups were revealed. During each interview, all were asked their opinions regarding their identity, background and professional conduct, and their working environment.

#### **5.3.3. Data Collection Method**

Three methods were used in this study: semi-structured interviews, observation and document analysis. The following sections describe these, together with the researcher's own experiences in the field.

### *5.3.3.1 Semi-Structured Interviews*

The interview method is important as one of the most common and powerful ways used in an attempt to understand human beings (Fontana & Frey, 1998). A researcher can not only gain fruitful information regarding the focussed-topic but also use it as an entry-point to developing closer relationships, in terms of familiarising themselves with the interviewees' points of view. The semi-structured interview allows flexibility to modify or add in accordance to the site situation and was designed to keep on-track with the questions (Smith, 2011). A guideline of questions was prepared before the session, so that (e.g.) his or her education background, work experience, and family or ethnic background would be included. The semi-structured interview is preferred as it can raise issues related to cultural content that affect an interviewee's auditing professionalism. The researcher found that this method enabled him to seek answers that reflect interviewee's thoughts and feelings in regard to their work environment and even personal issues. Furthermore, the interview session, which was initially supposed to be a 'formal' way of communication, was shifted to a relaxing but serious conversation, due to unstructured questions given by the researcher. In doing so, the interviewer can engage in a sense-making dialogue. The technique of 'coming down' to the level of respondent and engage in a 'real' conversation in order to grasp the respondent's personal feelings may imply a more honest, morally sound and reliable source of data (Fontana & Frey, 1998).

The Appendix Table A3 provides a list of questions which were used as an aide-memoire by the researcher. The interviewees were asked to express their feelings about many matters, such as them being Indonesian and part of the Big-4 accounting firm. Also, the semi-structured interview technique was an appropriate method, in that once the interviewee expressed a particular issue, the interviewer could ask further, related questions. This technique enabled the researcher to obtain an in-depth understanding of certain issues that occur concerning auditors. The interview session was recorded and the interviewees were aware of this and gave their permission.

During the first phase, the interviewees did not hesitate to answer questions about their ethnic and family backgrounds. The Indo-Chinese interviewees were confident in explaining their 'Chineseness' and their community, along with their professional activities. Hence, the researcher concluded that the issue of ethnicity, in particular the Indo-Chinese, has decreased significantly and no sensitive issue was raised in this regard.

In the second phase, the researcher asked similar questions of the auditors, including their family and ethnic backgrounds. Again, there was no hesitation in answering such questions, and the interviewees were happy to explain their backgrounds and opinions in regard to their ethnicity. The researcher observed no material ethnic discrimination operating as such in KAP, and all staff were apparently treated equality in terms of ethnicity, religion, cultural background, and gender. Hence, the researcher was able to gather rich descriptions of professional behaviour, social interaction among auditors, relationship with superiors and the Indonesian audit profession.

### 5.3.3.2. Interviewees' Profiles

Table 5.1 illustrates the interviewees' profiles in KAP. It contains structural levels in the audit and non-audit divisions, and the total of interviewees from each division.

<b>Function</b>	<b>Audit</b>	<b>Non-audit</b>
CEO / Founder	1	1
Partner / Advisor / Director	6	2
Manager / Senior Manager	7	1
Senior Staff	4	1
Associates/ Junior Staff	7	0
<b>Total</b>	<b>25</b>	<b>5</b>

**Table 5.1. Interviewees' Profile**

As shown in Table 5.1, 30 auditors were interviewed, involving the CEO, Founders, Partners, Managers, Senior, and Junior staff. From the audit/non-audit demographic, 25 auditors and five non-audit staff were interviewed. The non-audit staff were positioned in financial and advisory services and the human resource division. According to work experience, the partners had eight to twenty years of audit experience, while the managers had five to fifteen years of experience. The senior staff experience ranged from three to six years, and the junior staff had working experience of less than two years. There were three expatriates among the designated local staff: the CEO, one advisor and one manager. All were Filipinos. Based on gender demographics, there were 14 male and 16 female interviewees. There were also two interviewees originally from another urban branch, as a contribution from another geographic location.

#### **5.3.3.3. Observation**

The objective of participant observation is to absorb information in a ‘natural’ approach (Adler & Adler, 1998). A researcher can interact with members or respondents of the organisation in a collaborative venture (Smith, 2011). Observation is a confirmatory tool to compare and contrast what has been said in interviews, and whether the collected interview data are in accordance to how he/she acts in reality. It is important to understand the ‘social life’ within a society, in this case, an organisation. Observation methods have been used widely among accounting scholars, particularly in qualitative research. In addition, qualitative research conducted in accounting firms is designed to examine the behaviour of auditors, including their personal reflection, social interactions and structural relation among subordinates and superiors. Replicating from Hudaib and Haniffa (2009), participant observation is intended to understand and make sense of an auditor’s life within the firm. This includes observation on-site (working hours) and off-site (during breaks and after working hours).

Observations were used to investigate the notion of cultural issues, such as, “How does one ethnic group perceive other groups? What is their attitude? How do they respond to other groups during a discussion or meeting? With whom do they mingle during the break?” These questions are likely to assist the researcher in making sense of the actors’ behaviours. Furthermore, the researcher used observation as a method to support the interview sessions. This allows further engagement with the interviewees as an informal conversation outside the sessions (Myers, 2013). The researcher observed informal sessions such as amicable chats during lunch breaks. An amicable chat is considered important to the Indonesian, as it can be one ‘ritual’ interaction towards closeness and harmony (Perks & Sanderson, 2000). The researcher observed some of the KAP staff by having lunch and talking about non-working issues. Observations included facial expressions, voice intonation, sentences used in amicable chat, jokes and gossip. No distance between the researcher and the KAP staff was found during the lunch and the chatting sessions were friendly. All observation results were documented in the researcher’s log book.

#### **5.3.3.4. Document Analysis**

The third method used in this research was archival or secondary data. Document analysis reviews and evaluates both printed and electronic materials (Bowen, 2009). According to Smith (2011), secondary data can be collected from texts, journal articles, corporate annual reports, or company disclosures. Hence, the researcher collected KAP’s history, vision and mission



statements, and management profiles from KAP's official website, and obtained permitted hard-copies from the firm. The researcher was given two hard-copy documents: KAP Code of Ethics and Professional Conduct, and 'What's your KAP?'. The first document contains information related to the code of ethics that all KAP staff need to comply with in accordance with local rules and regulations. The second document contains information regarding opportunities for KAP staff to take part in exchange programmes worldwide, community projects, learning and development programme, and sport and art competitions. The two documents provide a useful analysis and background of KAP firm, which helped the researcher to understand the firm's working environment.

Other secondary data include: mass media texts related to accounting and audit issues, such as newspapers, magazines and online media; KAP and other company's published reports (annual reports, sustainability reports), and sources related to Indonesian politics, economy, and social issues. These data assist the two other methods by providing the company's background, as well as to understand its cultural environment. Based on this document collection, the researcher was able to construct an interview protocol which consisted of a list of broad topics related to the current documentation (Hudaib & Haniffa, 2009).

A field log was used to record details of interviews and observations. The log book listed the names of interviewees, their titles, gender, and years working for KAP. During interviews, the researcher did not write anything in the log book but focussed only on the answers given. After each session finished, the researcher wrote up phenomena related to the interview, such as frequent topics favoured by the interviewee, face and body gestures, and voice intonation. The researcher's thoughts and comments were included, to emphasise observation in the field. The field log was also used to prepare additional questions directed to a particular interviewee, such as managers and partners. The researcher felt that during the session, the questions needed to distinguish between the junior and senior auditors based on hierarchical and experience of auditors.

#### ***5.3.4. Critics of an Interpretivist approach***

The nature of the interpretive approach that underpins this study is to observe a particular setting of community or organisation and investigate thoroughly the phenomena appearing in the setting. Interpretivism argues that social sciences are different from physical and natural sciences, in that ontologically, there is no 'separable separation' of the person (researcher) and the reality (Weber, 2004). Unlike a positivist approach which often denies relativism,

interpretivists recognize the existence of cultural, experiential, historical contexts of a human being (Crotty, 1998; Weber, 2004), which epistemologically suggests knowledge is not awaiting to be discovered, but socially constructed in the world.

There are critics, however, as to how the qualitative and interpretive approach is used in an investigation. Wai Fong Chua addresses three criticisms towards this approach. Firstly, she argues that using the extent of 'actor agreement' as the standard for judging the adequacy of an explanation is extremely weak (Chua, 1986, p.618). There is a tendency that the researcher may be unaware whether his/her interpretation is derived from the researcher or the actor's point of view. Such a limitation often occurs while employing this approach, no matter how inevitably expected by the researcher.

Secondly, Chua (1986) mentions the lack of critical observation when using an interpretive approach. She refers to Habermas (1978), in arguing that interpretivists view a single layer in one dimension, and tend to ignore other "forms of life". When revealing a phenomena, the researcher often assume a taken-for-granted actor's behaviour without scrutinising a "false consciousness" or possibly being a dominating source of power.

Lastly, interpretivists presume that cultures, norms, and values that revealed from the society are based on commonalities of daily life. There is the possibility that the researcher omits other conflicting layers that exists between one class and another in society. As Crotty (1998) argues, a researcher must be able to position his/herself whether he/she seeks an understanding of an interaction in a community and accept *status quo*; or a research that challenges, seeking out conflict and oppression, in order to motivate change. Hence, since the researcher acknowledges and takes into account these three drawbacks of employing interpretive approach, this study does not seek to further develop into a critical perspective, and accept that an interpretive approach as already described is sufficiently robust for undertaking this research.

#### **5.4. Research Site and Accessibility**

This section describes the research location and the approaches made to accounting firms in Jakarta, Indonesia. In addition to the research location, this section also includes research accessibility and confirmation, and the profile of the accounting firm.

#### ***5.4.1. Research Location***

Jakarta is the capital city of Indonesia and the centre of business and government. With a population of more than ten million, Jakarta is considered to be the largest city in Southeast Asia, and it consists of various ethnic groups from regions across Indonesia. Being a premier location for business activities, the majority of headquarters of domestic and international companies are located there. This also applies to almost all accounting firms, including the Big-4 firms who have offices in the city. About 237 international and local accounting firms are domiciled in Jakarta, each of which have branches in other major cities such as Surabaya, Medan, Bandung and Makassar (IAP, 2012). This research also observed personnel in the Indonesian Accounting Association (IAI) and the Indonesian Institute of Certified Public Accountants (IAP) to gain general information about accounting in Indonesia.

To answer the research question, the researcher chose accounting firms that have international affiliation partnerships. There are 40 international affiliated firms, four of which represent the Big-4 firms (Ernst & Young, Deloitte, KPMG, and PricewaterhouseCoopers). These firms have established local representatives in Jakarta since the 1970s, so all are acquainted with historical developments in Indonesia. The Big-4 firms are located in the central business districts of Jakarta, which have easy access by public transport or private vehicle.

#### ***5.4.2. Research Accessibility and Confirmation***

The researcher emailed senior staff members in all of the four Big-4 accounting firms inviting them to participate in this research. As part of the obtaining access to the research field, the researcher sent emails containing introductory and 'purpose' statements of the research, along with attachment files of invitation letters and other information. These emails were sent to partners in the Wellington representative offices as a preliminary introduction, so they could forward the email to their Jakarta offices and thereby the appropriate contact person. This email was also sent to the Technical Director of the Indonesian Accounting Association, who has a close connection to partners in the Big-4 firms in Jakarta. These emails were sent on 13<sup>th</sup> August, 2013, and the first response from a Big-4 firm was received on 16<sup>th</sup> August, 2013.

The second stage consisted of a follow-up email and included an invitation to the CEO of one Big-4 firm and an information sheet. The CEO responded and agreed to have his firm as the research site. The first meeting on the site was held on 16 October, 2013. As part of the requirement to access the firm, the researcher sent a consent form to the participants, while the

firm provided a letter of undertaking to the researcher, to ensure the participants and firm's identities were kept anonymous at every stage in the research. After confirmation of access was obtained, the researcher commenced research on 11 November, 2013.

Due to the agreement of confidentiality and anonymity with the firm, this research uses pseudonyms for the firm, founders, partners and staff being interviewed and observed. The firm thus asked the researcher to sign a "letter of undertaking" to ensure that all names and expressions related to the interviewees were held anonymously. The history of the firm, named 'KAP', was retrieved from articles and books, although every attempt has been made in writing this thesis to maintain the anonymity of the field site.

#### ***5.4.3. KAP Accounting Firm Profile***

This section illustrates the profile of the selected research site, which elaborates the history and environment of KAP. This includes the merger of three small public accounting firms and one accounting firm in order to compete with bigger accounting firms in Indonesia, and the Indonesian cultural influence during the merger.

The founders of this firm were mostly close colleagues in university and business. They merged their firms with a common vision to develop better accounting practices in Indonesia. Mr. Harris is Indo-Chinese from a successful traditional medicine trade family. His father wished him to become a doctor but Mr. Harris preferred to undertake social, economic and cultural studies during high school. He then graduated from a famous economics school in Jakarta, majoring in accounting. Soon he worked in an accounting firm where he got the job from his previous lecturer. Mr. Torris is of Moluccas descent but has lived in Bogor, West Java, since he was teenager. His Sundanese became more fluent than his Moluccan, and he attended Roman Catholic junior and high schools. He then entered the same university as Mr. Harris and graduated as an accountant. Besides their occupations as public auditors, in their spare their time they became lecturers in the school from which they had graduated.

Mr. Harris is one of the most prominent people in Indonesian accounting. Within six years of establishing his own accounting firm, he had grown his firm from 3 to 100 staff with 7 partners. His hard work to develop the firm produced many clients from public companies and conglomerates, due to the firm's good reputation. By the end of the 1980s, Indonesia's capital market was developing and Mr. Harris had the opportunity to affiliate with one of the Big-8 firms. But his dream was to help develop Indonesia's accounting profession. He believed that

Indonesian accountants needed a strong and independent firm to develop their accounting and auditing skills. He commented:

Except one accounting firm, others as member firms, correspondent firms, did not give any benefit to the profession at that time. I don't want this to happen and I must fight for it. It's like doctors' profession; if the Indonesian doctors could not give the best service to the patient, people will find another option to Singapore, Malaysia or Australia. It is the same here [in accounting profession] (Founder 1, Retired, Male).

Mr. Harris needed to convince the business community that Indonesian auditors could be quality auditors. His mission to develop the quality of Indonesian accountants led him to enlarge his firm. One way to achieve this was by working with other firms. Merging was an option. Mr. Harris approached Mr. Torris and Mr. Chris, who owned a small local firm, and they responded positively. Mr. Chris convinced the other two partners that the reason to merge was not because of the Big-4 firm's allurements, but because they shared the same vision. Eventually, this merger expanded to other local firms: Mr. Mark's and Mr. Stevenson's accounting firms.

The merger may have been easier than initially anticipated. The decision to merge took only two meetings. The first meeting discussed the vision and condition for each firm. The second meeting was to set up a new offices, a job description for each partner, the valuation of the three merged firms, and profit sharing for the new office. In order to find a new office name, the decision was made by so-called *Musyawah* Mufakat between the partners; it is a consensus within the spirit of familial and beneficial understanding (Kartikahadi, 2010). Mr. Harris believed that the key factor to sustain a successful merger was to uphold good trust between the merging partners, not only to combine equity, but also to combine skills, effort, time, description, responsibility, clients, staff and risk (Kartikahadi, 2010, p.155).

One crucial moment for Mr. Harris was when the Big-6 (now Big-4) accounting firms decided to choose an affiliate office in Indonesia. Previously, Mr. Harris was an "A" member while another accounting firm led by Mr. Donald was a member of "B". In 1989, the trans-Atlantic mega-merger between "A" and "B" took place and meant that the two local firms had to choose whether they had to, or could, merge harmoniously. Several important meetings were held between Mr. Harris and Mr. Donald, in order to review a process for a possible merger. However, the eventual decision was to not merge.

For this reason, it was up to the merged "A and B" international firms to decide its affiliated firm in Indonesia. The final decision was made at a prestigious hotel in Jakarta where a

representative from KAP and a Japanese advisor, who happened to be one of the founders of a Japanese accounting firm, held a hearing from both local firms. At first, Mr. Donald dominated most of the argument, while Mr. Harris kept silent. Later, the decision was made, that Mr. Harris' firm was chosen to become a KAP member firm. The decision was surprising due to Mr. Harris' 'silent' character; Mr. Tang, the advisor who was at the hearing, said to him later,

While meeting you and Donald, you were never critical of your senior Indonesian colleague and quietly waited for our selection. I admire your personality and power of organizing partner. (Kartikahadi, 2010, p. 169)

As a member of an international accounting firm, KAP is considered to be one of the largest accounting firms in Indonesia. Competing with other internationally-affiliated firms such as 'Sycip Gorres Valayo and Co', KAP ensured it led in sales, personnel and quality assurance. KAP has become one of the leading audit firms in Indonesia, which specialises in capital markets. Moreover, KAP has also become the leading recruiter for top accounting graduates (Kartikahadi, 2010). With over 900 partners and staff, KAP offers quality services of audit and assurance, tax, and consulting management. The firm serves a range of clients such as companies listed on the stock exchanges, multinationals, public institutions and national enterprises. KAP also has a branch office in Surabaya, East Java.

Amongst other accounting firms in Jakarta, KAP is believed to be one of several firms that maintain an 'Indonesian' culture, compared with those which have adopted a more Westernised corporate culture (see Chapter Six). The uniqueness of this firm is that although it is affiliated with a Big-4 firm, its business and work environment is conducted in the "Indonesian" way. One of the founders of the firm commented:

We are the only accounting firm in Indonesia owned by Indonesians. We don't have any financial assistance from our affiliation. We are fully owned and managed. I manage my financial issues and never ask their money, and the thing I pursue is clients. (Founder 2, Retired, Male)

His comment assured the researcher that this firm has sufficient independence to manage its own financial and administration issues. Their cooperation with the Big-4 affiliate enables them to serve international clients with good quality service, and provide useful training and technology. Chapter Six describes that KAP had issues in reconciling an international demand to uphold audit service quality with how the Indonesian staff prefer to work.

Cultural differences are one factor that merging firms must take into consideration. For example, not all firms have the ability to accommodate different ethnicities and there is a

tendency that a firm prefers to employ the one ethnic group. Previous studies, such as Annisette (2003) and Hammond and Streeter (1994), address the issue of ethnic discrimination in accounting, but few have explored ethnic tensions inside the accounting firms. KAP provides insight on how ethnic backgrounds typify the mixed culture of Indonesia.

When the merger happened in October, surprisingly there was no friction. Of our founders, Mr. Chris is Moluccan, Mr. Stevenson and Mr. Harris are Chinese, Mr. Mustofa is Javanese. They managed to adjust themselves until nowadays. So that is why the culture is mixed. (Partner, Audit, Female)

The above section provides an insight into KAP as the research site.

## **5.5. Data Analysis**

Data analysis is an important process to interpret data collection into meaningful data to answer the research question. Schutt (2012) argues that in terms of describing textual data, qualitative analysis tends to be inductive, where the researcher is required to identify steps in elaborating the data. Subsequent to data collection, Miles and Huberman (1994) suggested three activities in the analysis: data reduction, data display, and conclusion drawing/verification. This activity is not a separate process but is a sequential part of the analysis. As an Indonesian, the researcher could produce a “sense-making” from all interviewees in order to illustrate the Indonesian norms embedded in all data collection.

Following the above processes, this section describes four analyses that took place in the post-data collection. The data analyses were based on the interview transcriptions and field log, data reduction or coding, data display and manipulation by NVivo software, and conclusion drawing and verification. Each sub-section is described based on the researcher’s experience during the analyses.

### **5.5.1. Interview transcription and field note summary**

With all interviews conducted in *bahasa* Indonesia, the recorded interviews were transcribed in the same language. This ensures that all transcription of voice tones, expressions and implicit meaning can be captured and understood by the researcher. During the analysis, the researcher needed to understand interviewees’ expressions, especially their disapproval of Indonesia’s audit conditions, disagreement with management decisions and conflict between staff. There were some expressions in *bahasa* that cannot be interpreted in English, so the researcher offered equivalent idioms and phrases when translating into English with some skill and judgement.

The researcher also utilised field notes for documenting all activities during and after the interviews. The purpose of the field notes was to support data transcription from interviews and to learn certain social relationships within the firm (Schutt, 2012). The researcher noted gestures from the interviewees, the seating arrangement in a meeting, and the possible meanings of such behaviours. The notes also assisted the researcher to identify and confirm the names and titles of the interviewees, and to combine with the researcher's perceptions of each of the interviewee's answers.

### **5.5.2. Data reduction (Coding)**

Data reduction refers to the process of selecting, focusing, simplifying, abstracting and transforming the data that appear in written-up field notes or transcriptions (Miles & Huberman, 1994, p. 10). Data reduction is a process in which raw data is transferred into meaningful information. This involves writing summaries, coding, teasing out themes, making clusters, making partitions and writing memos. According to Corbin and Strauss (2008), a code is an abstract representation of an object or phenomenon which can be used to identify themes in a text. In other words, a code is a tag or a label for assigning units of meaning to the descriptive or inferential information compiled during a study (Miles & Huberman, 1994, p. 56). Each final transcription is categorised, based on a similar theme and given a particular code in specific sections on each theme. The objective is not only to organise the researcher's findings for further analysis but also to capture the finer nuances of meaning lying within the text/transcripts (Bazeley & Jackson, 2013). In creating the code, there are two ways to generate a theme; the emic or the etic approach. These words originated from the linguist Pike (1966) i.e., the difference between Phonetic and Phonemic analyses. An etic approach attempts to describe behaviour using external criteria imposed by researchers, while emic attempts to describe items of behaviour occurring in a particular culture utilising only concepts employed within that culture (Davidson, Jaccard, Triandis, Morales, & Diaz-Guerrero, 1976, p. 1). In other words, an emic focus represents a setting with the participants' terms and viewpoints, while the etic focus derives from the researchers' terms and an externally originated viewpoint (Schutt, 2012, p. 322).

As mentioned earlier, the interviews were conducted in *bahasa* Indonesia for all Indonesian staff, regardless of their ethnic backgrounds, and in English for selected expatriates. All interviews were transcribed based on the respective languages and were then categorised and coded. Based on the Corbin and Strauss (1990) grounded theory, this research will employ



open coding, whereby transcriptions are compared with each other in an attempt to discover similarities or differences. The coding emerges through those comparisons and subsequently can be grouped to form categories. This means that the researcher scrutinises overall phenomena in the fieldwork, analysing transcriptions and re-hearing the recorded interviews to establish possible themes, and creates the codes.

In this study, the coding was established based on the theme derived during the interview sessions. This theme was determined from both the prepared themed questions and the length of answers given by the interviewees. The latter ensured what themes were mostly discussed by the auditors. The first stage of coding involved creating a general scheme of coding which is not content-specific and is based on an inductive process. There were seven main codings: Background, Client Culture, Comparison, Indonesian Culture, Life Balance, Regulators, and Work Environment. Later, the researcher decided to elaborate more coding due to specific issues raised by the auditors. Hence, 37 codes branched from the seven main codes.

### ***5.5.3. Data Display (Data Manipulation with NVivo)***

Data display involves the outcome of the data reduction such as matrices, graphs, charts and networks (Miles & Huberman, 1994). NVivo software was used to assist the data manipulation and display. In NVivo, coding is ‘a way of fracturing or slicing the texts, of resolving data into its constituent components.’ (Bazeley & Jackson, 2013, p. 74) Selected texts are then highlighted and classified into the designated nodes. A node is used to ‘indicate either a terminal point of a point of connection in a branching network’ (Bazeley & Jackson, 2013, p. 75). The texts can also have multiple codes according to the pre-determined themes, so that one piece of selected text may be stored in several nodes. Through this software, the researcher observed the number of nodes and codes in a node, annotation, memos, linkage, and modelling. NVivo provides various visualisation attributes to assist users in mapping and organising data. The visual model enables clarification of selected categories and concepts for which these elements have links between them (Bazeley & Jackson, 2013)). At this stage, the researcher generated a number of models based on the list of nodes. Of the 20 most frequently occurring coding nodes, the top six are selected for further scrutiny. The models are the combination of two or three of these nodes, and this step requires logical interpretation and sense-making by the researcher. These models represent relationships of each node based on the frequent codes expressed by the interviewees. Further processes are described in the next section, and represented in Figures A1-A5 in the Appendix.



has been discussed in connection with strategic management (Steinthorsson and Soderholm, 2002), strategic change (Ericson, 2001; Gioia and Chittipeddi, 1991; Gioia *et al.*, 1994; Gioia and Thomas, 1996; Isabella, 1990), culture (Harris, 1994; McLarney and Chung, 2000), organisational disasters (Gephart, 1993; Weick, 1993) and various other management-related issues (Hasan and Gould, 2001; Hill and Levenhagen, 1995; Daft and Weick, 1984).

In this study, sense-making is used to connect and discover patterns between the nodes and attempts to make sense of these codes. The interviewees are given freedom to express their thoughts regarding themselves and their relationship with the firm and colleagues. The partial results from the codes are expected to 'make sense' of what is going on in KAP, necessarily involving norms, values and attitudes of the actors. The models in the data display are examined based on the researcher's sense-making. The researcher observes the relationship between each node in the models and relates them to the text codes expressed by the interviewees. The sentence-by-sentence analysis is studied and interpreted to obtain an outline of the organisational sense-making and classifies them according to the respective nodes. The process of sense-making provides ideas to further understand the norms and values lived out in the daily practices of auditors and accountants from an indigenous perspective.

Subsequent to this process is the classification of models to be used as the main findings. The data manipulation from NVivo assisted this researcher to find the six most discussed areas expressed by the auditors. They are Indonesian ethnicities, Javanese *kekeluargaan*, Indonesian Politics and Economy, Accounting Professionalism, Client Behaviours. Appendices figures A1-5 show the final list of the codes and nodes, and their relationships. The researcher further scrutinised the number of auditors that expressed the same issues. The issues, represented by nodes, were then classified into the main findings, which will be the central topic to this thesis.

## **5.6. Role of the Researcher**

As an indigenous researcher, this study has a unique approach that may not be offered by other Western scholars. The role of the researcher, which involves an in-depth understanding of the Indonesian context, contributes to the rich description of Indonesian culture and norms. Wilson (2001) argued that "indigenous paradigm" comes from an epistemology that relationships are more important than reality. As such, the role of a researcher is to link any indigenous relationships of ideas and concepts that may only be understood thoroughly by an indigenous researcher.

The process of data collection, interview transcribing and coding, an interpretation utilising sense-making processes, and analysis of the findings are relationships that require a researcher's subjective thoughts and understanding as an Indonesian. As described in the data analysis process, the researcher's role is to interpret *all* data collection in order to generate an understanding of Indonesian culture and norms. The study thus offers a nexus between extant literature which is presumed to have a largely Western perspective and the analysis of this study derived from an indigenous perspective.

## **5.7. Conclusion**

This chapter illustrated the research methods used. The first section contains the rationale for using the qualitative approach to answer the research question, the underlying ethnographic and indigenous approaches as methodology. The research site of the accounting firm is described. The research design consists of research phases with a data collection period. The latter describes how the researcher undertook semi-structured interviews, observations and document analysis to collect data. During the data analysis, the researcher performed four iterative processes to ensure that the texts of transcriptions and other supporting documents made a reasonable argument. The models, generated by NVivo, assisted the researcher to interpret the relationship between nodes, and thus to provide a structure with which to further offer the analysis and findings.

## **Chapter 6**

### **Cultural Influences on Audit Professionalism**

## 6.1. Introduction

Indonesia is regarded as one of the most diversified countries in terms of the number of ethnicities, plurality of religions, and rapid economic development. As a multi-cultural nation, the extent to which cultural factors affect the statehood and society is apparent. Since independence in 1945, Indonesia has experienced a rapid development in economic, social, and political areas, which are predominantly affected by market liberalisation and globalisation. In the '70s, Indonesia introduced an 'Open Economy' marked by legislation in the fields of both foreign and domestic investment (Tuanakotta, 2007). Reshuffles in taxation and the effort to revive the capital market complemented the Open Economy strategy. The entry of foreign accountants, after the Dutch accountants' exodus, can be perceived as a logical consequence to this strategy.

Indonesian auditors are exposed to norms of both international accounting firms and local cultures. Previous studies have confirmed deviations from a non-Anglo-Saxon context, particularly in Asian countries whose cultures may not respond as expected by Western counterparts. Studies of Indonesian accounting and audit professionalism have focussed on areas such as professional and ethical values (Gaffikin & Lindawati, 2012), audit independence (Irmawan, Hudaib, *et al.*, 2013; Nasution & Östermark, 2012) and Indonesian accounting standards (Maradona & Chand, 2014; Perera & Baydoun, 2007). However, analysis of the Global Professional Networks (GPN) in the local context, which is manifested as an organisational culture, has not been well-researched. This study offers the opportunity to observe organisations which are subject to significant foreign business influences as well as local norms.

In order to explain the nexus, the next three chapters (Chapter 6, 7, and 8) illustrate three main findings that was found during data collection. Chapter 6 will illustrate Indonesia's cultural influences and values in the accountancy field, and the extent to which such values affect the manifestation of audit professionalism. Chapter 3 discussed Indonesian culture and determined it is predominantly influenced by Javanese culture that has been nurtured and spread across the nation. Javanese norms and values are believed to impact on the behaviour of every Indonesian. At the root of such behaviour is the Javanese concept of family, which is a foundation to understanding the Javanese way of life.

In the KAP setting, one focus of investigation describes the construction of ‘family values’ and ‘audit professionalism’ which has not been discussed sufficiently in earlier research on GPN. The main interview question that the researcher asked was, “What do you think about the working environment, according to your perspective?” A further question to clarify this, if necessary, was “What do you think about Indonesian culture compared to your audit professionalism?” The question was expected to create a snow-ball effect on other interviewee’s concerns such as cultural domination in the workplace, ethnic backgrounds, relationships with other (same or different ethnic) staff and their opinions with regard to their audit tasks and responsibility. Figure A1 (NVivo Analysis on Indonesian institutions) illustrates the relationship between the Javanese norms of Rukun and Respect, and other ethnic groups, while Figure A2 describes the relationship between the Javanese norm of *kekeluargaan*, the Global Professional Networks, and audit professionalism (ref: Figure A2, NVivo analysis on Javanese *Kekeluargaan*). Based on the findings’ analysis, this chapter is divided into four central topics: the founder’s values, the value of *kekeluargaan*, tolerance, professional opinion, and professionalism and ethnic stereotypes.

## **6.2. The Founder’s values, Nationalism, and specific ethnic values**

### ***6.2.1. Founders and the future***

The analysis starts with an idea that to appreciate the elders is one of the most honoured and widespread norms in Asian countries (Lewis, 2006). As well as Eastern values of the Japanese and the Chinese, Indonesian values are shaped by the importance to respect elderly persons in the community, as well as religious leaders and the fore-fathers of a society. In KAP, many of the senior staff agree that Mr. Harris, one of the founders of KAP, is considered the most respected fore-father of this company. Staff expressed their admiration and respect for his dedication to the firm, as well as to the development of Indonesian accounting. As one partner noted:

One reason I don’t want to leave the firm is that the values coming from the founder are so strong. Now the second generation is running the business and they too have the founder’s experience [of managing the firm]... If I can observe the current generation, the founder’s principle is still intact [in the firm]. (Partner, Audit, Female)

She illustrates that the first generation of the firm, including the founding partners, cultivated a beneficent and harmonious environment in KAP. With his Indonesian Chinese background, Mr. Harris had dreamed of establishing his own accounting firm. He followed his father’s

Chinese philosophy: “Every success depends on its human”; and an oriental wisdom, “three factors of success; timing, location and a harmonious human” (Kartikahadi<sup>10</sup>, 2010, p. 89). Mr. Harris ensures his staff work in a comfortable environment. He wants people to come to office happily so they can work with persistence. He determines that a happy staff can increase the firm’s productivity and thus maintain a good audit quality. The ambience of ‘family’ can be detected as soon as the interviewees express “sheer happiness” of working in KAP. This is confirmed by another partner:

All of the founders are retired, but they still came to office once or twice or so. The second generation, like Mr. D and Mr. O, are still in a good relationship with the founders. And that's what I see here; very *kekeluargaan*. (Partner, Audit, Male)

This confirms that the firm has a strong background of *kekeluargaan* and maintains good and familial relationships amongst the staff. The second generation, which currently runs the business, is also affected by the values of the founding fathers.

KAP staff, however, also expressed their concerns about the future leadership in the firm. This relates to the subsequent generation that has less interaction with and influence from the founding-fathers’ values. One of them presumed the values of the founding partners will soon evaporate and will be replaced by values driven by the international firm. She commented:

As for the third layer, if the second one retires, they have less relationship to the founders. So it is very likely that the international influence will dominate within the third generation. I can say when the founder applied the Indonesian principles, they [the younger generation] weren’t here yet. And they don’t how well the founder maintained harmonisation between international and the local interests. Their relationship to the founder is not that close. (Partner, Audit, Female)

This comment not only confirms how the hierarchical concept of respecting the elder/ founder exists in the firm, but also an anxiety about whether or not the Indonesian values will diminish. The partner, who has been working for over 20 years in the firm, may have reasonable grounds for worry if the organisational culture gradually converts into that of a more Western-oriented firm. Many of the loyal staff may feel that Mr. Harris is considered the elder in a family, where all staff respect his leadership as he gave priority to nurturing staff and governing the organisation. Nonetheless, this behaviour may change as the third layer takes control.

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<sup>10</sup> The researcher has translated *Kartikahadi* from Indonesian to his best endeavour.



In relation to respecting the elders' values, another aspect to consider is the value of nationalism. This stems from the patriotism of the founding fathers that spent most of their lives during the post-independence period of Indonesian political history. They have experienced the famine era, political turbulence and then market deregulation and liberalisation from the '50s to '70s. Nationalism is another attribute revealed in the views of the older staff, and their concerns when the international firm begins to dominate older, established norms and values.

The founding father expressed the importance of maintaining core Indonesian values. During the interview, he emphasised that Indonesia is a very diverse country with various ethnic and religious backgrounds. Hence, one must appreciate another's beliefs and norms in the organisation. His view on the importance of *Bhineka Tunggal Ika* was described by the founding partner:

We are within *Bhineka Tunggal Ika*, [embedded in] our character, trait, etc. I just got back from Bukit Tinggi [town]; the West Sumatran has similar [character] with the Batak. This is challenging, because what is the main character of this country? So one thing we need to be concerned within this multi-ethnic society is to have high tolerance and mutual understanding. I salute the founding fathers of this republic; they have thought about Pancasila [philosophical state foundation] and the UUD 1945 [national constitution][to unite us]. Nowadays, people are starting to become more democratic, but it is the small kingdom we often find, and this is dangerous (Founding partner, Retired, Male)

His comment made clear that that he honours the value of "unity of diversity" and trusted that his staff were able to commit to this value. The expectation of tolerance and mutual understanding underpins relationships among staff and thus generates a norm which may be unique in this firm.

The manifestation of harmony can be observed in KAP since this norm has been exercised since the amalgamation by the founding partners. Mr. Harris initiated the merger of a number of small accounting firms in Jakarta, based on close, friendly relationships. The merger into the partnership was successfully completed in 1989 with no tensions arising between the partners.

A comment suggests the scope of the norm of tolerance in KAP:

I joined the firm in February and the merging was in October. What makes it fascinating is despite the merging process, there was no friction. One partner is Moluccan, one Chinese, and another Javanese. They can easily adjust themselves until now. So the

[Indonesian] culture is there; although we receive international standards, the Indonesian is not left behind. So until now we are improving (Partner, Audit, Female)

It is thus clear that Indonesian norms have developed since the merger. A high degree of tolerance and mutual understanding are the essential factors to build a harmonious consensus in the firm, and these norms have been maintained to counter-balance international influences. The founders established these values for the firm and ensured their survival.

### **6.2.2. Discussion**

The findings suggest that staff in KAP show strong values to honour and respect the founders of the company. As a charismatic individual, Mr. Harris set the fundamental principles for managing a business firm. It is suggested that the firm's values are primarily based on the Chinese value of Confucianism. The company was formed from merging smaller accounting firms, blended from the various ethnic groups of partners but relying on the consensus of *musyawarah* (collective and unanimous decisions). In turn, paternalistic leadership is exhibited, a concept similar to both Chinese and Javanese norms (Irawanto *et al.*, 2011b), with a high level of respect towards the founding partners even when they are retired.

According to the findings in this study, there is a mixture between the Confucian values and the Javanese value of *hormat* in respect to the KAP. The founding partner is positioned as a charismatic leader, whereby every staff member acknowledges his leadership and management style. It can also be seen that the second generation staff have a strong relationship with the founding partner, maintaining the norms embedded in the firm. This behaviour can be described from two perspectives. First, Javanese *hormat* indicates that respect to the older person originates from the family, where a father is respected due to his leadership and charisma within the inner family (Geertz, 1961). The value of *hormat* is also manifest in the Javanese community, where the elder person has the right to control a group of people and has the right to be respected (*Bapakism*) (Magnis-Suseno, 1997). The findings show that such behaviours continue to be exhibited in this firm.

Secondly, a Chinese value, part of Confucianism, also reflects the importance of such relationships. As suggested by Yan and Sorenson (2004), Confucianism key themes include three factors related to a Chinese business and family business environments: collectivism, the family and interpersonal values. Interpersonal values represent the relationships outside the family. It consists of a hierarchical relationship; the ruled are expected to be submissive to the ruler, as is common in superior-subordinate, employer-employee and teacher-student

relationships. A young person must treat older persons with respect and the elder must treat the younger with care and kindness. This interpersonal value is also a factor in friendships, where trustworthiness is an important virtue (Yan & Sorenson, 2004, p. 10). In this sense, the comments from the partners reflect such respect.

In terms of nationalism, the founder expressed his concern that the ideology of Indonesia's patriotism must be maintained in all staff. In this political and socio-economical context, Indonesia is a diverse nation with hundreds of ethnicities spread throughout the archipelago. It is thus imperative to unite the nation with the national motto of *Bhinneka Tunggal Ika*, 'unity in diversity', allowing all citizens to value harmony and unity, strongly driven by the Javanese values of collectivism and *rukun*. This value promotes an attitude of reducing one's ego and accepting differences with others in harmony, in order to maintain unity in the nation. The principle has been the pillar to include all ethnic backgrounds in Indonesia namely; to accept any differences, maintain tolerance amongst the society and commonly utilise *Bahasa Indonesia* - a similar root language of Malay, as the national language.

The Sukarno and Suharto regimes promoted such Javanese traditions and values to impact on how any Indonesian may interact in this society. The danger in disregarding this ideology is that tensions may occur between globalisation and international integration, and national identity may cause a degree of concealed rivalry. The findings confirm that nationalism is apparent within the firm, where staff acknowledge and accept differences in ethnic groups and backgrounds. Nonetheless, according to the second generation of the staff, there is a belief that the connection with the international firm is strongly influencing the replacement of local norms, particularly diminishing the value of *kekeluargaan*. As Cooper *et al.* (1998) argued, this tension occurs when the influence of the international firm affects the firm's current management and may even jeopardise the existing values of different religious and ethnic groups. In this sense, rivalry and arguments will clash with the Javanese and the Chinese norms of harmony and collectivism.

### **6.3. The value of *kekeluargaan***

#### **6.3.1. Findings**

Within the locus of any Indonesian professional organisation, Indonesian norms and values are factors which may be explored when understanding the construction of identity within the firm and its personnel. One dominant factor was the frequent expression of *kekeluargaan*, an

Indonesian term to represent the close and harmonious relationships between its members. To some extent, it is difficult to specify a definitive meaning, as *kekeluargaan* also means ‘family’ in English. As commonly understood in the Western context, a family connotes “blood” members. On the other hand, *kekeluargaan* has a wider spectrum affecting the meaning of ‘harmony and affinity’. One partner comprehended the different orientation of a family by a Western definition.

Family can be misinterpreted outside Indonesia: family can be perceived as family business, which image is not right. ... I’m thinking that professionalism is always a point that we emphasise, maybe that one should come first, and then be supported by what? Of course they have to have technical knowledge. That is the cohesiveness of our people, the relationships. (Partner, Risk Management, Female)

The notion of *kekeluargaan* is strongly embedded in KAP, which can be generalised to a wider extent in society. Almost all interviewees described *kekeluargaan* as one element that cannot be separated from their identity and the KAP organisational culture. The construction of *kekeluargaan* within the firm is perceived to be a challenging identification, in which many elements are a mixture of culture and norms that blend as ‘Indonesian’ norms. One factor often expressed is the sense of comfort derived from this norm. At every level of the audit division, this expression was frequently described as an important factor why KAP is considered to be an ‘Indonesian’ firm. An associate gave this example.

From my experience, I enjoy working in KAP, very comfortable to work here. Culture-wise, here is more *kekeluargaan* than other Big-4 firms. We work as a team and help each other: any questions we can directly ask the manager. We are open here. (Associate, Audit, Male)

From use of the term “comfortable” it is apparent that the associate relates the expression with *kekeluargaan*. The kinship attachment amongst staff is at the core of the firm and leads to a comfortable environment. He considers that getting help from others, including his superiors, is a form of *kekeluargaan*. A similar circumstance came from the management level regarding this term.

This is an interesting point; it is more into personal (relationships) and not the organisational culture, even though the family culture in KAP is strong. The culture is more into personal relationships. (Manager, HRD, Male)

The manager explained that in KAP, the construction of *kekeluargaan* is derived from the personal attachments amongst staff; it is not a sexual interaction but rather reflects “family ties” relationships. Thus the Javanese or Chinese values provide a fruitful understanding not only of

family relationships, but also a sense that this attachment is a latent or explicit construction of connectivity among staff. This attitude is described in a terminology that is often hard to translate into a Western point of view. Furthermore, the feeling of comfort was described by a partner.

They (the boss) understands, [that's what makes] the culture in KAP comfortable for me. They understand that we have priority with family, so we do not need to be in the office, right? Although in the policy we need to be 24-hour ready, in practice they will appreciate us [by not calling in too late]. So although the standard is there, the Indonesian culture works well here. Nudging friends is less dominant, so this is how we balance off. (Partner, Audit, Female)

Being "a family" means not only giving personal attention but also providing empathy to others. Some expressions below concern how KAP is looking after each staff member's priority for their own families.

For instance, during our work there is an employee asking for permission, "Can I be excused? My mother is ill and she needs me to do this and this." We tend to be sympathetic. Although it will disrupt our work, we somehow give a day off for strong reasons. And we don't mind handling her work; what could go wrong for a day? That's how we feel. (Manager, Audit, Female)

We don't have any problems between boss and staff relationships, it's been very *kekeluargaan*. So we not only support the work but also family matters. They will try to help by giving suggestions, so we get support not merely work issue. (Manager, Audit, Male)

These feelings and common understandings are some key factors that staff in KAP are willing to share. Having empathy with someone else is a feeling that most Indonesians tend to describe as being *kekeluargaan*. The Javanese value of family has further implicit terminology, in that the nuclear family is a centre wherein one acknowledges common feelings. It is also a means to exercise social virtue, with shared understandings (Magnis-Suseno, 1997).

Bringing a family issue into the workplace thus appears to be considered an appropriate excuse in an Indonesian firm, and this attitude results in high levels of loyalty to the firm. From a Western perspective, such an attitude is considered unprofessional, while the Indonesian staff admit that his/her family issue is a priority above any other matters, including work issues. Nuances of *kekeluargaan* in KAP extend into a language of 'tolerance', are discussed in the next section.

In terms of policy compliance, there is a tendency that Indonesians prefer informal consensus, rather than written rules. This behaviour is an important factor, as far as Western perspective is concerned, where commonly a rule is made to govern all staff.

Another partner also described the meaning of *kekeluargaan* in KAP where, surprisingly, she lost words to express the term:

Some of the staff who resigned and moved to another Big-4 firms will say, KAP is different. Why different? For sure the *kekeluargaan*, and that's what everyone says, "KAP is different, but I don't know why: the *kekeluargaan* is just different." But in terms of salary, here is less than other Big-4 firms, [and this is] no secret. (Partner, Audit, Female)

The question thus arises as to how important *kekeluargaan* is to an Indonesian. It is a constructed relationship based on filial piety and harmony, wrapped in such a way that each Indonesian is connected to the others. The manifestation of helping one another with sincerity (*Gotong Royong*) is one value derived from the Javanese *rukun* that is intuitively understood by Indonesians.

Another attitude that accommodates the nuance of *kekeluargaan* is the "amicable conversation." A warm-hearted talking amongst fellow Indonesians is one attributed attitude that is often observed in daily conversations, on formal and informal occasions, and at meetings. Some comments address the importance of such an amicable conversation.

Actually, all we have to do is to chat, get to know this person. For instance, when I was an associate, if we need this guy, I would chat with him first, until I know when to stop. Or if it's not at a busy time, I will have a chit-chat with him before I ask for any data. They will likely to welcome us because they feel [they are] cared for. (Manager, Audit, Female)

Amicable conversations can also occur inside the organisation, where staff can spend more time chatting with his/her fellow during work time. Open and warm conversations are needed as an entry point for 'permission' from the other party, and an Indonesian tends to develop a long-term relationship while engaging in such conversations. The degree of 'ritual' chatting is considered more important than following rules (Perks & Sanderson, 2000). This is sometimes frustrating from a Western perspective as it will produce long periods of meetings without any obvious and fruitful outcome. On the other hand, discussing personal issues such as family, personal life and gossiping may ease the way into discussing any problematic issues for an Indonesian. An associate expresses his comfort of working in KAP and considers "friendly" as

an important aspect. He prefers sharing personal thoughts with others; a light conversation without a serious topic.

Q: So you feel you are being a *kekeluargaan*?

A: Yes, even seniors treat us like friends and not as staff. So if there is a problem we can talk to them, anything, clients. We can share everything. (Associate, Audit, Male)

A nuance of *kekeluargaan* also appears in this comment. Although the juniors were complaining about long working hours, they tend to compensate this feeling with the ‘warm’ environment which can reduce the level of stress and fatigue. Being close to seniors is also considered to be “part of family” with no emphasised hierarchical ordering. The first-year staff do not initially expect that an international, reputable accounting firm, such as KAP, will provide an environment that can capture the feeling of *kekeluargaan*. In addition, the above respondent feels he is part of a family, where he can be as close as in a father-son relationship. It may be uncommon for the junior to simply expect the trust of family when they enter a new working environment; surprisingly, the above comment expresses such an occurrence. It thus shows that KAP considers human aspects are an important value. The following comments further reflect some feelings when working in this firm, and the meaning of *kekeluargaan*.

It is more into supervisor and subordinate [relationships]. Sometimes the partners can easily interact with their juniors and it’s a normal thing, no gap. Sometimes they can have lunch together, working until late at night together. So it is a common thing to do here. If you say Javanese culture, it would be more into top-down harmony relationships. (Manager, HRD, Male)

Let's say someone hasn't performed yet; usually from a group I see someone from the manager or seniors, or someone who is older and has more experience than that guy made a soft approach and tell them nicely, “You seem not to be fit to be an auditor. Why don't you look for another job?” Something like that is not in the guidance and no such thing in the Company's regulations. So maybe this is what Javanese culture is; to avoid conflict and all that. (Manager, HRD, Male)

Actually there is no problem with our relationship with supervisors or subordinates. To the top level so far the system is *kekeluargaan*, so we not only have the support on work problems, but also family issues. They often give suggestions on family problems, so we are not merely here for work. (Manager, Audit, Male)

The above situations are a sample reflection of comments from most of the interviewees and, to some extent, the notion of *kekeluargaan* continued to be extensively articulated in the interviews. All comments are in favour of an ambience of harmony, comfort and friendships. There is little divergence among the views of junior auditors, seniors, managers and partners;

illustrating that KAP is a type of firm in which most Indonesian workers would be willing to work.

Another issue relating to *kekeluargaan* is when KAP staff express that this value is embedded in the workplace. Most staff demonstrate the degree to which *kekeluargaan* is positioned as a strategic element within the institution. The manifestation is reflected in one comment by a manager.

When I first joined the firm, there was no [international firm]'s influence, the partners were just like that, *kekeluargaan* and so on, willing to share with others. And when the [international firm] came, we were asked to accept and merge with other cultures. For the last 5-6 years we have been acting as counsellor and that's another skill; one side is to listen and the other side is to coach. So we cannot be somebody else, right? (Manager, Audit, Female)

Her comment confirms that by allowing one firm to reflect the *kekeluargaan* norm, the manifestation of audit professionalism can be applied accordingly and as a legitimate institution such as the Big-4, her position is to maintain audit independence and integrity can be satisfied.

Also what makes me comfortable here is that I can apply my professionalism in accordance with the standard. If I feel this is not appropriate with my conscience and the standard, I can say no, and my position is strong. (Partner, Audit, Female)

There is a contradiction, however, that not all staff agree to the benefit of having *kekeluargaan* in the firm. This norm is likely to be opposed by claiming that the notion of 'family' is an obstacle to the firm's performance.

I experienced that very much, before 2003, we were one big family and suddenly there was one bule [foreigner] who sat in on our meeting. He was like all the others, already [doing] 'tik, tik, tik' [showing calculation], so they mentioned the expansion thing will not happen because of the family concept. A lot of people would complain, "Look, what and who are these people that we are hiring?" (Senior management, Male)

The senior management confirmed that the clash of norms between the local and international behaviours has resulted in tensions and disagreement in the top management. The international partners wish to improve the company's performance, while the locals tend to preserve the current environment. As part of 'family', the second generation may preserve the current management style and maintain staff harmony and *kekeluargaan* in the firm, but the following generation is expected to possess fewer local norms and adapt more into the international firm's



culture. There is a sense of “the other” nationality that is gradually permeating the firm and is expected to succeed in a future environment.

The top management in KAP also has a concern with staff professionalism and productivity. There has been a tension between the high expectations from the international firm and the local behaviours, leading them to initiate key decision regarding such differences. The value of *kekeluargaan* does not have the full support of management, as they feel the state of being *kekeluargaan* is considered disadvantageous to the firm. Some comments represent this disagreement.

Because up to 2004, we had that very big notion of family (*kekeluargaan*). It does not necessarily mean it's good, so that is one of the things I try to change. We have *kekeluargaan* [family], correct. That one is good but it is not enough. *Kekeluargaan* only is not enough, and it becomes difficult to manage, using *kekeluargaan*. You do not perform as expected and [I don't understand why] you are still here. So, I'm not very proud to be in the said notion of family [giggles] (Top management)

In 2004 or 2005, (it may be within the minutes) we kicked out more than 100 people and that is not *kekeluargaan* any more... [laughing]...(Top management)

The above comments indicate a strong notion that the Javanese value of *kekeluargaan* is even considered ‘lethal’ to the future of the firm. He argued that having close relationships amongst staff will lower the sense of professionalism; and having an environment of harmony jeopardises the chain of command between management and staff. The senior management, on the other hand, must maintain the good reputation of the local entity as a member of the international firm, and provide increasing revenue to the global firm. Moreover, the value of *kekeluargaan* can be perceived as an attitude that hinders audit professionalism. The argument is that having a sense of family values may not be appropriate in running the business. This notion reflects a high level of moral obligation for the senior management to execute what is best in his organisation to fulfil GPN requirements. As described before, his comment regarding ‘kicking out’ disgruntled employees in 2004-2005, suggests that *kekeluargaan* is no longer applicable to the firm. On the other hand, the following comment explains in a rather subtle way this issue of redefining *kekeluargaan*.

If you keep on doing business based on family concepts then you cannot grow the business. You need to have a system; you need to be professional. We have professionalism to grow the business. So that's why we go in that direction, but we always said that we support you, if you do the right thing, we support you, but in a professional way. (Partner, Risk Management, Female)

She suggests that it is no longer acceptable to use the family concept to support the firm's performance. She argues that a 'better system' is needed and that all staff must exercise their professional attitude in order to achieve the firm's objectives. In this sense, the *kekeluargaan* value contradicts the modern firm's setting, and the former is likely to be more explicitly discarded in future.

### **6.3.2. Discussion**

As far as the Western business research is concerned, there have been studies that scrutinised the impact of organisational behaviour and culture toward institutional professionalism. Recent studies also confirm some of the most important aspects, such as the manner in which institutional scrutiny shows a significant contribution towards the development of professional identity. As for professional service firms, such as accounting firms, the analysis derives from client discourse, ethics and professional identity. Nevertheless, there is still a need to extend the coverage of research, in terms of building a thorough understanding of a particular organisation, with analysis from an indigenous perspective.

Factors such as management control, family matters, friends and communities, and non-working aspects have been neglected in Western perspectives. These would much enrich the research on institutionalisation of professionalism (Anderson-Gough, Grey, & Robson, 2000). In terms of defining *kekeluargaan*, there is much to be investigated in order to offer a thorough understanding.

This section focuses on the discussion of *kekeluargaan* value. Appendix Figure A1 shows that Javanese *Rukun* were mostly mentioned by the staff, followed by Batak and Indo-Chinese. Moreover, as the researcher scrutinised, the Javanese *kekeluargaan* dominated most of the conversation within staff (see Figure A2). The interviewees mostly relate *kekeluargaan* with the Global Professional Networks and audit professionalism. Magnis-Suseno (1997) illustrated that the concept of a Javanese family has a profound meaning for its members and thus permeates social norms. In principle, a family is the place in which a member can develop, socially and individually, free from non-familial pressures. On the contrary, being inside the family frees him/her from these pressures, allowing the family to become an oasis of freedom (ibid p.172). The attribute of "inner and outer pressure-free" has been clearly observed in KAP, confirming that it is critically important that informal and family concerns are nevertheless reflected in the more formal working environment. These pressures may constrain a member from acting

inappropriately; or force the person to behave with respect and maintain a harmonious working environment.

Sitorus and Budhwar (2003) argued that a typical Indonesian business entity is nuanced with inner tranquillity, harmony and stability, and collectivism and patronage systems (p. 604). In turn, these values work in conjunction with the Javanese value of *rukun* as well as the Chinese Confucianism value of harmony. Moreover, Indonesians prioritise comfort and serenity while working in a group as well as conflict avoidance among members of the group. Punctuality is not considered an important norm and a Western norm towards efficient time management is sometimes completely omitted. The term *Jam Karet*, or ‘Rubber time’, is commonly observed: Indonesians do not like to be hurried and there is little sense of urgency about anything (Lewis, 2006), inside or outside the office.

*Kekeluargaan* is a quintessential factor, revealed to be pervasive in KAP. There is a high degree of correlation between the values attached to *kekeluargaan* for all ethnicities in Indonesia. The *kekeluargaan* norm is not only observed in the nuclear family but also to a greater extent it involves many elements within the cultural diversity of Indonesia. The predominant values of the Javanese, combined with strong inherent Confucian values from the founding partners, has produced a unique characteristic of office behaviour rarely been considered to date as an influential dimension of the institutions in a professional firm.

For an Indonesian, bringing their family concerns and daily life into their working life is important, as they consider having close and personal relationships is part and parcel of being “inside family”. As previously described, a family is considered a highly important factor for the Javanese, in a way in which is very difficult for Western business scholars to recognise or acknowledge. As Geertz (1961) argued, Javanese uphold a family as a basic model of an intimate relationships and this extends to kin and social networking. The values are reflected as general values which provide legitimacy and meaning to familial institutions and serve as normative guides for daily activities (ibid p.146). This study clearly shows how it may also extend deeply into a business environment. As such, the concept of the Javanese family is predominant, including informal action, which constitutes organisations such as KAP.

However, *Kekeluargaan* may or may not assist in providing professional support to staff. A partner may assume that staff may receive such a privilege of being a “family” in the firm, but only as long as they can perform well in their fieldwork, as a professional auditor. A clear ‘bright line’ between the value of *kekeluargaan* and professionalism is observed in this study.

To some extent, the former may be suffering a gradual devaluation in this particular work environment, while the latter is gradually dominating organisational norms. Hence, there are tensions between KAP staff who wish to preserve the value of *kekeluargaan*, with pressure to reduce local cultural norms in the work environment of such a GPN. In this case, the top management is perceived to be the ‘middleman’ to bridge this gap and to ensure fair treatment to both factions.

To summarise, the notion of ‘family’ and/or *kekeluargaan* is perceived differently between Western and Indonesian perspectives. This was already observed in Martin's (2002) book on organisational culture. She observed OZCO, a pseudonym for a multinational corporation firm, and illustrated two constant themes based on the integration matrix of culture. OZCO was considered to be a company which possessed family characteristics such as consensus, harmony, ‘family feeling’, and commitment. In contrast, KAP’s value of *kekeluargaan* has been added, in order to compare and contrast the expectations and characteristics of the auditors. Both cultures utilise the same themes to establish comparability.

<b>OZCO’s interpretation of ‘family’</b>	<b>KAP’s interpretation of kekeluargaan</b>
Participation in stock plan and profit sharing	No nudging friend
Management by walking around as status equaliser	Minimal confrontation with the boss
Perk distribution based on need, not status	Treatment as family
Consensual decision-making	Harmonious relationship
Lateral promotions	Soft approach between supervisor and subordinate
No mass layoffs; voluntary time off	
Relocation voluntary; assistance for spouse; Facilitate self-help day care arrangements	Family priority / bringing family matters; comfortable
Scholarship funds	Personal relationships
Flexible hours	Flexible hours and work
Self-improvement programmes	
No short-term contractors	Money is not the primary concern
Voluntary time off for everyone	Amicable chat
New employees sent flowers	
Blame training, rather than individual fault	

**Table 6.1. Comparison of the 'family' values**

Table 6.1 above describes two different perspectives to define a ‘family’ culture in a firm. OZCO is based on top-down management themes, where KAP derives from bottom-up staff expression. It seems that the top-down approach explains the domination of the top management to generate a concept of ‘family’ within the firm. The subsequent evidence for this type is that the ‘family’ concept may not be interpreted in the same way in the lower levels of staff. Martin (2002) explained that other perspectives, such as differentiation and fragmentation, contradicts the integration theme, which illustrated the different interpretation to other layers of staff levels. The inconsistency occurs between the espoused and the enacted culture.

On the other hand, KAP’s value of *kekeluargaan* offers the ‘family’ culture, and is most clearly manifest among the auditor’s in the firm. The bottom-up approach has created a different angle of the culture, promoting *kekeluargaan* in nature between staff and within the hierarchical structure. It represents the enacted value of the rational behaviour and manifestation of the staff. *Kekeluargaan* is thus created not from the current management decision; it begins with the actor’s self-manifestation and continues to connect with others in the same base of norms; the *rukun* and respect.

## **6.4. The value of tolerance**

### **6.4.1. Findings**

In a nation of a widely scattered archipelago of islands, Indonesia is considered to be a unique nation, one that is able to accommodate differences of ethnicities while maintaining the harmony of one “big nation”. With over 240 million people, it is imperative that the nation is governed in a way that people maintain a high degree of tolerance for each other. Although Javanese hegemony is strongly embedded in the political and socio-economic state, the extent of the Javanese value of *rukun* has made the people of Indonesia willing to cooperate, while nurturing tolerance as their ideology. The slogan *Bhinneka Tunggal Ika* is an Indonesian ideology to maintain unity in diverse cultures and background, promoted in the independence era in order to maintain order throughout the nation. This ideology has been the founding principle for education for Indonesian children; to accept differences among the diversity of cultures, religions and ethnic backgrounds.

Tolerance can be found in many aspects of relationships as well as in the workplace. The measurement and judgment of one’s decision is often surrounded by the norm of tolerance,

especially when dealing with personal issues. One example of this treatment by the management is described by a partner.

This means to tolerate. For example, here we have many partners. If I cannot reach the target with certain condition and if I have two kids and need special attention, we can talk to our supervisor. They will consider this, although it will affect our benefit, but as long as you talk about it, they can understand. So there won't be such and such a punishment, no. Here the Indonesian culture is stronger than in the other Big-4 firms. (Partner, Audit, Female)

She emphasised that to adhere to the value of tolerance amongst staff is described as being 'Indonesian'. It is apparent that, within Indonesia, there is a clear norm to have a high degree of tolerance and empathy. Family matters are one strong reason for staff to argue and it is often likely that this is problematic for management.

Nevertheless, in order to gain a balanced overview of tolerance, one expatriate comments on the application of the norm within the workplace. He observes a difference of treatment comparing a Filipino with a Jakarta firm.

A Some organisations, for example, they're very rigid and very professional...so it's different culture, for example in SGV, very strong, professional, demand...it's [pause] what to call that...its excellence is really important.

Q Was it SGV in The Philippines or Jakarta?

A Yes, the Philippines. For example if we make mistakes even periodically or errors in language, that immediately affects how we perform and our rating, our respect to the work.... Not so much in, for example when I was in AA Indonesia, the same office but a different kind of culture, so there are still, for example, they are not rigid, more friendly. ... I think that's Indonesian culture also... so you make some minor mistakes, it's still okay. Those are same offices, but different countries and different culture... there's some impact. (Advisor, Audit Expatriate, Male)

The expatriate experienced a different interpretation of time with the Indonesians. The value of tolerance and compromise is beyond his anticipation that these norms are highly manifested in an Indonesian firm. His belief is to maintain integrity and objectivity as an audit professional but this may be jeopardised because he cannot fully implement his duties in accordance with international standards. There is a degree of tolerance and he is able to adjust his cultural awareness in the Indonesian firm. He continued to comment about cultural adjustment, showing some emphasis on time orientation.

A: Yes... So far, when I came in here [and] joined KAP, it was different... I [tried to] apply the cultures of the Philippines in Indonesia, [but] that was not work[ing] well...so [I had to] change up.

Q: Like for instance, being on time, is it somewhat still challenging for Indonesians?

A Yes, I think because of the traffic ...

Q And probably then makes a good excuses why you are late or something.

A Yes because for example, normally it takes 20 minutes from here to another meeting, and then suddenly there's traffic... (Advisor, Audit Expatriate, Male)

The advisor admits that within Indonesian society, making an excuse is considered common when facing a late appointment. In Western society, this attitude is not tolerated but Indonesians can accommodate the situation. The issue whether accommodating such excuse behaviours is one factor that most auditors will face when meeting a client, or to some degree can reduce the implication of auditor independence and integrity, is yet to be revealed. A sense of tolerance, empathy and sympathy are typical behaviours that originate from a Javanese person. Although the code of ethics does not address such actions, as a Javanese he has a sense of mutual support and willingness to help others. A Javanese inclination towards empathy often surfaces when someone is in distress and the other has a 'duty' to help with no strings attached.' The following comment, as already cited, also illustrates this aspect of typically Javanese empathy.

For example, while working, there is a person who asks "Can I leave the office?" As long as there is a good reason for that, we give [permission]. But it turns out to be, for example, "My mother is ill, I have to take her to , blah, blah, blah", we tend to feel sympathy in such an instance. (Manager, Audit, Female)

Expressions of sympathy and empathy are very strong among all Indonesian people. The attitude of providing relief and offering assistance to others are a manifestation of *Gotong Royong* or mutual aid. This may present a dilemma, especially when an auditor must uphold the code of ethics and the independence of professionalism. During the development of an auditor's behaviour in Indonesia, such encounters are inevitable obstacles, especially in terms of downplaying Javanese value on mutual aid. As indicated above, the nature of sympathy is very pronounced in KAP. The attitude of sympathy, a key principle among Javanese values, is a hallmark of Indonesian society as part of *kekeluargaan*. The *kekeluargaan* norm indicates that this organisation may have more 'Indonesian values' than other firms. Another definition of 'tolerance' was described by a manager, who expressed that being tolerant cannot be avoided

in Indonesian society. The level of tolerance was regarded as ‘a must’ to understand how KAP staff deal with their subordinates.

If we don’t provide [a degree] of tolerance, they [the subordinate] will not give their loyalty, and will only work for money. The culture forces us to tolerate for any occasion, ethnicity, religion, and race. Since childhood, we are forced to tolerate [to each other], so if we don’t have such tolerance, we can be too authoritative and will lose our characteristic (Manager, Audit, Female).

The comment above shows that tolerance is an important norm for the Indonesian to develop a good relationship among staff. In order to gain trust and loyalty, a manager must provide an environment that support tolerance and harmony, which reflect communal norm. In addition, the diversity of Indonesian ethnicity, religion, and race, require all Indonesian to have a degree of tolerance. Failure to tolerate will be considered as exhibiting an authoritarian person in the society.

Being Indonesian, the tendency to negotiate with their counterparts is relatively frequent. Negotiation is a vital part of dealing with Indonesians. The development of personal relationships and seeking mutual trust in the long-term are elements which characterise Indonesian negotiations. Indonesians will frequently ask about background, interests and family life during negotiations (Perks & Sanderson, 2000). This negotiation ritual behaviour may often turn into excessive favouring, such as asking for certain ‘personal’ assistance.

Auditors, in this case, may experience the expectation that they will not only audit, but also produce client’s financial reports. Thus the manifestation of audit professionalism needs an inevitable adjustment in terms of communicating the nature of an effective audit to clients. This study examines such adjustments, as to what an auditor is facing. In the Indonesian context, meeting people is an important stage when dealing with initial engagements, as illustrated in one comment regarding an Indonesian client.

No, the international standard is fully applied, but the way to communicate is by using the ‘Indonesian’ way. We are dealing with the Indonesian but still using the same international standards and never use other than that. (Partner, Audit, Female)

She indicates that there are specific characteristics in dealing with Indonesians, especially clients which have a strong Javanese culture. In the case of government agencies, communication is undertaken differently with multinational clients. As already described from a theoretical perspective, a public sector agency would be expected to place high value on the manifestation of Javanese culture.



#### 6.4.2. Discussion

This section offers a review of aspects and consequences of *kekeluargaan*. As previously discussed, one of the manifestations that occurs within *kekeluargaan* is an attitude of tolerance amongst its members. The tolerance behaviour originates from Javanese history, where the principle of being Javanese was to accept differences of religions that flourished in the region over many centuries.

There can be little doubt that for the average Javanese, the idea of *toleransi*, as such, is inextricably associated with the peculiar nature of religion in Java... In brief, the crucial factors to be taken into account if one is assessing the degree of real religious tolerance in any particular case are the ethnic and class associations of the relevant religious group. One should not argue that the Javanese are tolerant of Christianity and 'Buddhism' as such, but insofar as these religious systems have been assimilated to 'Javanism' and to the extent that their adherents are respectable Javanese (Anderson, 1965, pp. 2-4).

From the Javanese value to accept differences in religious beliefs and other ideological penetration, there is a need to manifest mutual acceptance and mutual cooperation in the society, named *musyawarah* (Magnis-Suseno, 1997). *Musyawarah* represents an equal attitude toward all voices and opinions, in order to establish the totality of will through a group (Mulder, 2005). *Mufakat* constitutes an amalgam of decisions through discussion, to offer a consensus across all members. In a group or community discussion, the aim of *musyawarah* is to accommodate all views, but none of the decisions satisfy only one party. Instead, all decisions are made unanimously and all participants should be prepared to relinquish and compromise their own particular view (Magnis-Suseno, 1997). It is believed that this attitude has been proven better than Western systems of voting, in order to reach a consensual decision.

In fact, term "*musyawarah mufakat*" is adopted as one of the five principles in Pancasila ideology, to be applied in all Indonesian practices. By such a term, a high degree of tolerance amongst members is needed to produce *musyawarah*. Such an attitude was also confirmed by Lewis (2006) where everything is negotiable within an Indonesian context, allowing uncertainty and ambiguity in decisions to be explicit, rather than ruled by strict and firm actions.

The value of tolerance is rooted in one Javanese basic value; that of *Tepa selira*. The term means a conscious awareness of one's own limits (Magnis-Suseno, 1997). The ethic value engages a person to measure his/her behaviour and attitude to others, in order to measure the

other person's feeling. Javanese believe that living in this world requires reciprocity, giving and caring. It is common for a person to first ask him/herself before wanting or speaking to others. This is to ensure that the respondent person is not offended by the first person's behaviour. Having such behaviour allows a person to increase his/her awareness of empathy and sympathy to others.

Geertz (1961) argued that training a person's sensitivity to others has occurred since the early childhood. She stated that "Hypersensitivity to subtle reactions of other people is a personality characteristic ... needed for the adequate observance of 'respect' and maintenance of 'social harmony'" (p.150). *Tepa selira* can be seen as a common behaviour in most Indonesians as they are conscious of reciprocity in interactions. The manifestation of *tepa selira* is shown in one comment from a manager regarding her staff; giving a day off due to the employee's mother illness. The manager shows how Indonesians prioritise empathy and sympathy in their decisions. Hence, such behaviour contributes to the level of tolerance where *tepa selira* may strongly influence an auditor's professional behaviour such as independence, scepticism and identity.

The tolerance attitude is embedded in each member of Javanese society, which is eloquently manifested in KAP. Kartikahadi (2010) explained that during the establishment of the firm's brand name, the founding partners agreed to reach consensus based on *kekeluargaan* and mutual understanding in order to fulfil public trust and marketing attachment. The form of tolerance is also affected in the way the staff treat each other, which is manifest in this firm. The findings suggest several manifestations of staff behaviour, such as not reaching targets due to family issues (having children), accepting minor mistakes, being late for meetings "due to traffic", and tolerating a client's preference to being a financial consultant rather than solely to audit the report. Such behaviours may seem contradictory to professional standards, and in some cases are inconsistent with standards for audit procedures.

## **6.5. The Exercise of Professional Behaviour**

### **6.5.1. Findings**

In relation to audit professionalism, the analysis found a significant relationship between professionalism and the other two nodes of the GPN versus local policy and local standards. After careful observation of the two nodes, there is seen to be tension with "audit professionalism". The finding below shows some opinions of staff in KAP relating to their

audit tasks and assignments. The notion of an auditor's identity is revealed as soon as the term 'professionalism' is questioned. As members of an international firm, KAP staff are obliged to follow international standards in order to ensure compliance and maintain them. Some comments express similar perception on this issue.

I think as you are in the profession, you have to comply. ... It is not flexible that you can change... As long as you are in public accounting, you have to comply. And then there are of course safeguards...for example whistle-blow analysis, or you have ethics...what you call it... I don't have that personal experience, so I just don't know how it works...but there are guidelines, there are controls. (Advisor, Audit, Male Expatriate)

As an expatriate advisor, there is a high level of expectation from KAP that he is the role model for local staff. In ordinary circumstances, the local staff tend to observe the expatriate behaviour as their role model. On the other hand, being non-Indonesian staff, he has full privileges to comply with the standards without any adjustment to the environment. The advisor also emphasises, "I don't know how it works," suggesting that he also found difficulties when comparing how he has to comply and how he is supposed to comply, as far as the Indonesian context is concerned. Nonetheless, the advisor infers that the standard has some deviations, when applying them in the field.

I think if you are in the firm, you must follow [international firm policy] like I told you before. Once we breach this we will face severe [consequences] while being reviewed. You know I am an auditor! The practice review for partners is held once every three years by [international partner]. There are points and grades from them... so we have no choice but to follow the rule, which occasionally hasn't applied in Indonesia (Partner, Audit, Male)

This comment illustrates the strength with which an international standards code is intended to be maintained in KAP. The review process of the KAP audit procedure is one aspect that is considered an 'alerting' device for auditors, not only to setting high standards of audit processes but also to have themselves seen as "good professionals". The shaping of the auditor's identity may diminish his or her personal life, being bound by the firm's strict standards. The statement, "I am an auditor" reflects the notion of being professional and putting substantial effort into complying with the international policy. The shaping of an identity is strongly inferred in his comment, suggesting that KAP has strong intentions to adhere to international policy.

Furthermore, a partner is assessed based on an employment review process, which is held once every three years, with a 5-point range applying; the highest point is 1 and the lowest is 5. Point

three is where a warning is given and points 4 and 5 means a further review in the same year. The effect of this assessment can be resistance, entire cultural assimilation, or a mixture of both.

One process to develop professionalism in KAP begins soon after a junior auditor enters the firm. A partner explains the development of ethics education in KAP.

Responsibility, honesty, integrity, professional; all are the standards. In [international firm] we live by this, I mean, when we sense that something is ethical [or not]. And we got this since we were junior [auditor]: we had to join their e-learning and ethics, so in my opinion they invest a lot of money for this. So before the kids [juniors] enter [into employment], they have to understand what ethics are, what gift or present they can receive and what not. That's what they have got since the beginning (Partner, Audit, Female)

The international policy plays a prominent role in developing local auditors' professionalism. This developmental stage is clear: every junior auditor learns ethical behaviour. Moreover, the emphasis on mastering this process is evident by the statement, "We live by this." This reflects a strong influence of the international ethical standard to shape KAP auditors' professionalism and ethical guidelines.

As part of auditor professionalism, ethics plays a critical role in defining "what is best for the clients". Thus, compliance with a code of ethics is another factor that must be met by KAP staff. This is important because by complying with the code of ethics as well as audit standard procedures, KAP auditors are pursuing legitimacy towards professionalism.

We have to comply with the International [standards], [I mean] the international [standards]. Because from the Indonesian [practice] side, we actually have applied IFRS, right? So at least we are in the same boat, same alignment. Other firms may have difficulties struggling with what the ethic [codes] are supposed to do, but we have known the ethic [codes] long before [other firms know], [so this is] professional behaviour (Partner, Audit, Female)

There are several points that may be derived from the above comment. First, the partner emphasised the word 'International' twice when expressing the importance of compliance with audit standards. This may be interpreted that she has a level of pride when working in a multinational firm. This factor is believed to be part of identity recognition. Second, there is an impression that she is comparing her firm with other international or local firms, assuming that the competition level is high amongst accounting firms. There is an advantage to being in KAP as opposed to other firms, in that the level of understanding ethics is superior. Thus, the level

of confidence is increased. Third, the level of responsibility for maintaining a good image and the firm's reputation is high, by maintaining high ethical standards. All factors contribute positively to developing self-identity as a professional auditor.

In terms of brand imaging, one expression may represent the importance of maintaining good communications with clients. Sucher *et al.* (1999) argued that in a service firm, such as an accounting firm, one must consider the importance of image, which distinguishes a firm providing a general service from one performing high-quality services.

Yes, brand name... for us it is incredibly [important], so we really need to preserve [international firm's] name from a bad reputation. From the first engagement, we cannot accept all clients like 'I know this client so we can accept it' based from a friend's reference. There are many and strict procedures to accept clients (Partner, Audit, Female)

KAP staff are obliged to maintain the good reputation of the firm. For a country such as Indonesia, this also means that losing face may result in a great deal of humiliation, both to the individual and to society. KAP staff must protect their good reputation whenever they are in the field. Despite the pressure from the international firm to maintain such an image, the fact that Javanese society holds this value of "not losing face" produces tensions in such an issue.

I am more concerned with not applying International Firm standards rather than the locals like IAPI. Though I'm also reading SPAP, PSAK [local standards] but the [international firm] has the general guidelines, the methodology and others originating from the [GPN], like all the steps and procedures. I am a bit worried if I don't comply with the global rather than to look for IAPI, for instance (Manager, Audit, Male)

There are several interpretations that can be inferred from the comment. First, the manager is more concerned with international standards than local ones. There is a tendency for KAP staff to rely more on international standards than the local ones. He admits that all audit rules are based on international standards, including local audit standards. The problem is the level of confidence in the local auditing principles is lower, which results in mistrust of local standards. Secondly, an auditor's identity is heavily influenced by the strong image of the international firm. Thirdly, there is tension between applying local vs. international standards. Currently the regulator has little ability to force practitioners to comply with the local standards. The comment above illustrates concerns regarding compliance with the standards.

The manager also believes that the international guidelines are elements in which one's character is shaped in KAP. He comments that complying with international standards leads to

the development of an auditor's identity. These assessments are directly forcing local auditors to comply so that the standard is common throughout the world.

If I can say, we are trained by [international firm], their emphasis is how your audit can meet their standards. The issue for us is that we have little time to meet their numerous standards which often change every year. In my opinion, that [issue] is more prioritised. (Manager, Audit, Male)

The manager is unclear in his own mind as to which standard should be prioritised as a professional auditor. There is much material guidance from the international firm but little time is allowed in which to learn it. In addition, the number of audit assignments has caused a limited time frame for auditors to update the latest standards. This pressure reflects the extent to which time pressure may influence an auditor's identity in KAP. An auditor must comply with requirements of international standards and the code of ethics, as well as the audit technical ability in the field. It also led to an increased awareness of the auditor's communication with the client regarding their standards.

### **6.5.2. Discussion**

An auditor holds and implements the professional code of ethics during engagements, as well as using professional judgments. The code of ethics has the objectives to achieve the highest standards of professionalism and to attain the highest levels of performance and generally to meet the public interest requirement (NZICA, 2012). The fundamental principles of an auditor must demonstrate integrity, objectivity and independence, competence, quality performance and professional behaviour. The application of these standards is recognised globally and is mandatory in day-to-day actions and conduct. In addition, the Code of Ethics promulgates that the fundamental principles must be understood by every auditor as their 'second nature' when dealing with the stakeholders (NZICA, 2012, p. 23). Nonetheless, the manifestation of such actions within the Indonesian auditor's task is challenged. In an unsupported environment, cultural differences are a factor that may influence professional practices. It is arguable that these principles originate from the Western point of view. Thus, some deviation and discrepancies may occur when practising audit professionalism in non-Western jurisdictions.

The finding in this study confirms that auditors in KAP are following principles as instructed by the international firm. The level of audit standards and the code of ethics must be adhered to when executing audit assignments in the field. They are trained during recruitment and training sessions to fulfil the required standards. As written in its company profile, KAP has

set a standard that can integrate personality, such as identity, talent and capacity to grow, both professionally and personally. One way to adhere to such a standard is evaluation of an auditor's performance. As Grey (1998, p. 574) confirmed, "A good source of information comes from the staff evaluation form." The standard of professionalism is articulated in the performance evaluation systems.

Communication; self-confidence; initiative; ability to win confidence and respect from clients and colleagues; performance under pressure; cooperativeness; reliability; professionalism (sic.); self-motivation; business sense; integrity; judgement; enthusiasm and commitment; appearance; team working; ability to follow instructions and accept responsibility; decision-making; presentation skills; contribution in meetings (Grey, 1998, p. 575)

In terms of professional identity, Anderson-Gough *et al.* (2000) argued that shaping an auditor's identity must not narrowly be concerned with assignment duties and appearance but take into account a client's control of events within the firms. Moreover, in shaping an auditor's identity, the auditor's life is strongly influenced by the degree to which the client's demands are institutionalised, by the performance of long working hours and turning down other priorities in personal life. The latter indicates a trade-off between audit professional and personal times. This means family concerns and flexibility time are minimised (Anderson-Gough *et al.*, 2000). It is believed that the demand to comply and the frequent assessments made by the international firm are two factors in developing the professional auditor in KAP. As Grey (1998) noted, professional and personal attributes are defined by the list of evaluation systems, which in turn lead to a consensus as to the 'ideal characteristics' of the auditor. Moreover, an assessment every three years for Indonesian partners in KAP is intended to maintain audit standards. As a result, KAP is developing its auditors to comply with both the international standards and any client or market requirements.

*Kekeluargaan*, on the other hand, serves as a basis of relationships between staff and generates attachment to the firm. In such cases, the family and personal relationships are connoted as a stigma; one that needs to be avoided when practicing audit independence. As Lewis (2006) explained, one characteristic of Indonesians' behaviour is to respect other cultures, including foreigners, while preferring to be in a collective society. Jeffrey *et al.* (1996) described the importance of professional commitment as being interrelated with professional values development, as well as developing ethical reasoning. Research on ethical development has also found a significant relationship between an auditor's morality and age, gender and

education, as well as organisation and professional expectations (Jones & Hildebeitel, 1995). Nevertheless, in countries such as Indonesia and other Southeast Asian nations, the notions of family and a collectivist attitude are embedded strongly in the people's behaviour. Javanese kinships and the value of family are factors that undoubtedly influence the manifestation of audit independence in the Indonesian context.

One manifestation of the *kekeluargaan* value is the focus on counselling and mentoring services, which can bridge any gap between junior and senior levels. Studies of informal communication and mentoring in Western society have been conducted by Dirsmith and Covaleski (1985), Scandura and Viator (1994) and Viator (2001). Nonetheless, these studies often neglected the notion of *kekeluargaan* or its equivalent as one method of non-formal communication. Hence, this study found that KAP staff demonstrate a degree of behaviour to express personal feelings in their work; sharing such concerns with colleagues and sometimes their supervisors. Thus, this study argues that within an Indonesian context, one must consider the importance of accommodating this norm in order to give sufficient recognition to cultural dimensions.

## **6.6. Graduates, Religious Values, and Ethnic Stereotypes**

### **6.6.1. Findings**

This section starts with the recruitment process in KAP and some comments related to this. For this topic, the researcher asked whether there were differences of characteristics between the locals and the overseas graduates. One comment showed a difference.

I can see that overseas graduates are more confident than the local ones. They have better [English] communication and they don't need to think "what is the [correct] vocab?" As for the locals, they are struggling [even] to make emails. So these are our challenges to convince them [the locals] that "you can do it!" (Director, Audit, Female)

She distinguished that the overseas graduates were more confident than the locals, in terms of communicating in English. Overseas graduates, particularly from Western countries, may have been exposed to daily conversations in English, and all of their courses are conducted in English. Therefore, their ability to communicate in English is better than those from domestic universities. Moreover, the behaviour of being less confident is sometimes related to ethnic stereotypes. To some extent, preference to recruit the same ethnic group is proven as some characters can be considered 'suitable' to become an auditor. On one hand, the Batak character is often described as an open and expressive personality, with a tendency to disclose whatever



feeling he/she possesses. In KAP, the number of Batak staff employed is quite large, compared with the two other ethnic groups. To elaborate further, below are some expressions from the auditors regarding this ethnic group, and some other cultural tensions between the Batak and the Javanese, reflected in KAP.

For the Sumatran-Batak (graduates), they are better in this job because they are more confident and tougher. If they don't understand, they will straight away ask something, but the Javanese, they will say 'ok', but then they will think, what to do next? (Associate, Audit, Male).

For instance, I am Batak, and I am used to direct communication. If I am upset, I will show that I'm upset, but that's it. My voice will be loud, but I know I'm working with other people so I will adjust. (Manager, Audit, Female)

The Batak is the expert in communication. I can see that they can survive in areas like auditing and law firms. They have high durability and stubbornness. (Director, Regulator, Female)

The manager, who is a Batak, expressed that she is used to talking in a high voice to a fellow Batak but that she has to lower her voice to others, particularly in the Javanese environment. There is an adjustment of communication when the Batak speaks for many Batak speak louder than the Javanese (Chandra, 2004). To some extent, these characteristics favour what is needed to work in multinational enterprises. The ability to express oneself openly is a key competency of good communication. Being *sungkan* or shy, for the Batak, is unusual, in that this ethnic group is likely to be confident in expressing their thoughts.

On the other hand, a Javanese has a more sensitive response to tone voice; they consider the level of voice as an indicator of anger or friendly sentiments. Such an interaction occurs whenever the Batak and the Javanese are conversing. A supportive comment is given by a Javanese.

The first time I entered this firm, it was so clear that the biggest energy [environment] comes from the Batak. The way they speak, express their ideas, and all those are heavily dominated by Batak nuance; straight to the point, and expressing strong arguments. I was shocked at first because I am from Malang [East Java]; my Javanese [ethnicity] was still strong, and to express ideas I need to consider seeking permission. But for them, they just talk, scream... pretty shocking. (Manager, Audit, Male).

This illustrates a temporary tension between the Batak and the new Javanese, in that this manager at first was not prepared for the level of volume in speech of the Batak. The situation worsened when KAP employed more Bataks in one audit group than other ethnic groups. Chandra (2004) highlights that Javanese people always stay as a low profile figure and rarely

regard themselves as a higher person to others. This behaviour clashes with the Batak personality of being upfront and dominant. As a Javanese, the loud voice is considered *kasar* or harsh when speaking to others.

The third ethnic group referred to by the interviewed auditors is the Indo-Chinese. Although other studies highlight the tension between *pribumi* and Indo-Chinese, the current situation during this research period did not find evidence of this. Since the fall of the Suharto regime in 1998, the recognition and acknowledgement of Indo-Chinese identity in the society is increasingly acceptable. Nonetheless, Soebagjo (2008) argued that the recognition of a Chinese ethnic identity amongst other ethnicities such as Javanese, Balinese and so on is not a real difference and is only seen as superficial. She felt that the feelings of discrimination and stereotyping, and negative images of the Chinese, will still occur in the society even in informal relationships and self-impression. The situation is believed to be less clear-cut in KAP, given that one of the founders is of Indo-Chinese descent and hence there is more mutual respect in such a multicultural environment.

The character of Indo-Chinese staff in KAP was referred to by an interviewee. This ethnic group is perceived to have a considerable amount of natural ability to align with work tasks. The management agree that the Indo-Chinese character can be observed, especially when new graduates are employed as junior auditors or associates.

For example, I've had, but not so much experience of, the Chinese and non-Chinese staff graduates from the University of Indonesia. They [the Chinese] are [more] intelligent, [although] sometimes you have to remind them so that they will remind themselves to get the work done. Technically they're both good. ... I think sometimes you have to push the non-Chinese staff harder than the Chinese. (Advisor, Audit Expatriate, Male).

The above responses indicate that ethnic background and characteristics are relevant, especially in considering new staff recruitments. There is a tendency that a firm is more favourable to recruit the same ethnic group, such as the Indo-Chinese, inferring this ethnicity is considered superior to other groups. The technical advisor's expression indicates that the Indo-Chinese character is an advantage, and they develop specific abilities faster than other groups in the firm. Another manager expresses the same sentiment.

As I observed, the Chinese have a higher work ethos [than other ethnic groups]. Maybe they thought to become tough in their family. As a result, they become more responsible and tend to work faster. (Manager, Audit, Female)

She presumes that the Indo-Chinese possesses a greater ability in completing work tasks. This work ethos is thus favourable to standards required by any business service firm, including KAP. A senior associate expressed how he dealt with the Indo-Chinese and found different attitudes compared with the Javanese.

I used to work with the Chinese and they are pretty much the same character with the Batak: if they say A, it's A, or B is B. Not like when you say yes, but apparently meaning the other way around. I have worked with the Chinese since the beginning (of my career) and I'm still working with them, so I know what exactly their character is: they are fast, decisive, and no fuss. And they are less negotiable, compared to the Javanese (Senior, Audit, Male)

Again the Indo-Chinese are seen to perform better than the Javanese. There is a preference expressed; and the Batak senior associate prefers to work with fellow Indo-Chinese. In turn, he expressed his similar character as being less negotiable and faster-working with the Indo-Chinese. However, in terms of dealing with clients, the Batak is aware that his/her expressive behaviour is inappropriate to clients. An example of attitude adjustment is provided.

It is a good thing to pick up some Javanese culture for this type of work, and to be too decisive is not necessarily good. For instance, if you have to deal with BAPPEPAM (Indonesian Capital Market Agency), the tougher you are, the more they will make it hard. So if we are right and they are wrong, we can use a more 'Javanese' language such as 'Please advise.' As a Batak, I would say, "I'm right and you are wrong", but I can't say that. The proper expression should be, "So what do you think is right, sir? Please advise." (Manager, Audit, Female)

Again, for negotiation, we use Javanese norms, but for prompt deadlines we use Chinese or Batak characteristics. (Senior, Audit, Male)

Despite his Javanese or Sumatra ethnicities, or even if a Sumatran has a louder voice, direct expression, but in general everyone is very tolerant. (Manager, Audit, Female)

In terms of religious values, the finding confirmed that such values are embedded as a guidance to their personal life. However, respondents did not express explicitly their religious beliefs as part of their audit work. One comment, expressed by senior management, described that KAP permit all religious practices in the organisation. The Muslims are allowed to practice their prayer inside the building by having one dedicated room as a prayer room.

*Q: What are the common shared values that KAP has?*

A: So I think when they say professionalism that one is very integrity, which is very important. That's the number one, should [it] be there. Commitment to each other, [and] cultural diversity, [can reflect] no matter what your colour is, we do not discriminate, you [can wear] *jilbab* (headscarf).

A: We surely have 'these' kind of staff. Leaving their beard long [for religious issue, is common]. What we see is his technical skill.

*Q: So you don't see what they are wearing?*

E: Well, we do have work attire and we prohibit some staff wearing ¾ pants, which we thought it is not a proper attire.

The conversation showed that the management allows staff to wear an appropriate attire that is accepted by the society. *Jilbab* or headscarf for women is a common attire for some Muslim women to wear, whereas ¾ pants for men is not common (it is infrequently used attire for Muslims in Indonesia, unlike elsewhere). Some Muslim men are also advised to keep their beard, according to the prophet Muhammad's appearance, which KAP allows them to do.

Another problem expressed by some interviewees was the quality of graduates in KAP. There is a tendency that accounting graduates have decreasing interest in becoming an auditor. One comment supports this.

My [biggest] concern is that not many graduates are interested [in becoming auditor]. I still believe that the top tier universities quality is good, but I feel sorry that the number of graduates from these universities is getting lower. They are not willing to work as auditors any more. Sorry to say, the graduates who entered [the Big-4] are now from the second and third layer universities. I even had to sit in on the recruitment process to see how the process went. Why do we get a small number of [qualified] graduates? Some of these graduates joined us only for two years, and soon resigned. It is our job to figure out this problem. (Director, Audit, Female)

The comment illustrates that there has been a decrease in qualified graduates originating from some prominent universities in Indonesia. One possible reason is that not all accounting graduates are interested to join accounting firms as their first stage of working experience. There is a tendency that the younger generation prefers to work in a less stressful environment and chooses to have more personal life. This is shown by the next comment from a manager.

Maybe you notice about the Gen[eration]-Y, the younger generation. They really appreciate a work-life balance. When I chat with them, [I can see] they are working, but they don't work until [late night]. So [I think] they only work not to make a living and they work for 'status'. If they feel stressed, they can resign at any time. I could not do such a thing in my time. There is a different generation [in terms of loyalty], so we need to make this profession attractive. (Partner, Audit, Female)

She reported the younger generation - Generation-Y, who were born between 1982 and 2000 (McCrinkle, 2003) - were mostly employed as KAP's senior and junior auditors. She observed that their behaviour was relatively different to the previous generation. Generation-Y are more technology-minded, compared with the older ones, and are concerned with their leisure and

personal life and they have the opportunity to choose job openings other than accounting firms. In general, the Indonesian standard of living has increased significantly for the last 20 years, and the proportion of the middle class has grown in most big cities in Indonesia. As a consequence, the family of this generation are more established. A director concurs with this statement.

Gen-Y is different. They were born when their parents were established. Since there are only one or two children in the family, they tend not to share with others, so are individualists. So what I find [this generation] is, “When I finish, then I am finished.” None is going to ask, “Do any of my friends need help?”... After all, we need teamwork, right? (Director, Audit, Female)

The director described her concern that Generation-Y may not suit the requirements to become an auditor. Their behaviour does not support the demanding time and effort of being an auditor. Hence, there is a problem in the recruitment process; not only regarding the quality of graduates but also the attitudes of the younger generation of becoming a professional auditor.

### **6.6.2. Discussion**

In terms of building the appropriate corporate environment, KAP accommodates a mixture of Javanese and Chinese cultural values. This can be seen from one of the founder’s oriental principles of life: “right time, strategic location, and harmonise people” (Kartikahadi, 2010). The term ‘harmony’ is considered similar to the Javanese value that supports family and kin. A family must protect and take care of its members with no boundaries of hierarchy between the nuclear family and outsiders. It is the core of interaction amongst staff in order to develop harmony and comfort. Similar to Javanese, the Chinese value of Confucianism maintains a strong sense of collectivism and harmony with the environment (Redding, 1990). Both cultures underpin the foundation of work attitude and are believed to originate from its founders. This can be interpreted as an integrated corporate culture, where every staff member acknowledges the ‘family’ value as an institutionalised consensus within the firm.

In terms of the work ethic, the Indo-Chinese are believed to conform to their stereotype. Many interviewees agreed that there is a strong correlation between work ethos and this ethnic group. Redding (1990) addressed the Chinese value of Confucianism, where a person must maintain individual responsibility in order to be respected. This value is believed to be one of the important aspects of Indo-Chinese ethnicity, more than the *Guānxi* value of networking and trust.

It is also believed that the Indo-Chinese possesses greater economic value orientation compared to Javanese and Bataks (Sarwono & Armstrong, 2001). This ethnic group is perceived to set a high standard of effort in order to gain economic benefit and sometimes reputation. Furthermore, Sarwono and Armstrong (2001) explained that this effort is due to the identity as immigrants, the effect of governmental policies and lifestyle orientation. This stereotype is confirmed historically by the fact the Indo-Chinese have been a major player in the Indonesian economy with its strong family-business, the middle-men traders and its networking since Dutch occupancy (Ananta *et al.*, 2008). During the Suharto regime, the Indo-Chinese further developed business conglomerates and dominate the capital markets (Irmawan, Haniffa, *et al.*, 2013). Hence, they can be acclaimed ‘a tenacious worker’ in Indonesian society.

Nonetheless, care is needed when stereotyping differences in values and attitudes between ethnic groups. One argues that due to the strong influence of the Soeharto regime, the assimilation of Indo-Chinese ethnic group was the main cause why this character may not be as strong as the former *totok* character<sup>11</sup> of Confucianism values. Indo-Chinese extend across the archipelago and they have adapted local customs, traditions and even language, causing some covert Chinese values to infuse local beliefs. Such exposure is why those of recent Indo-Chinese descent tend to have fewer concerns with the “root tradition”, alongside the strong influences from the Western society. Many of the Indo-Chinese newer generation are unable to speak Mandarin, with little respect for their culture or pride in their cultural lives (Efferin & Hopper, 2007). Thus, stereotyping can be misleading, in that newer generations can possess different characteristics than those explained above.

In general, the Batak and the Chinese ethnicities are more confident in their ability to communicate. The Chinese are believed to have a strong work ethic, whereas the Batak culture allows a person to express openly through his/her argument and can be more expressive (Chandra, 2004). Javanese, on the other hand, appear to be less communicative with others and rather to keep it to themselves. Moreover, Javanese have a tendency to withhold their thoughts and prefer to please their counterparts by agreeing, although they do not understand or may even privately disagree. The feeling of ‘shyness’ remains embedded for graduates from rural regions of Indonesia.

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<sup>11</sup> *Totok* is used by Javanese in this sense to mean the racial purity of the Chinese

Religious values, in these findings, is largely considered as a private matter, and KAP staff did not appear to see these as expressly relevant in relation to their audit work. This is possibly due to the degree of religious tolerance embedded in part of Javanese culture. Also, discussing religious issues can be considered a sensitive topic. Nevertheless, Putri and Kamayanti (2014) argue that the mixture between work and religious ethics exist within Indonesian auditors. They express that a submissive interpretation of spirituality can control one towards avoidance of ethical violations, to be aware of humanity naturally as a human, maintaining balance, believing in karma, and realisation of the 'vertical' relationship between man and God (2014, p. 21). This argument is confirmed by Rudnyckyj (2009), that the Indonesian maintain 'spiritual economies', which may well reflect religion values in the auditor's working environment.

In terms of an Islamic perspective, there is a tendency not to follow *Syariah* Law in the most common business activity in KAP, as well as in Indonesia. As described in Chapter Three, although Indonesia is a Muslim-majority population, the nation's political economy does not implement Islamic *Syariah* Law, but rather applies democratic secular law, based on *Pancasila* (Abeng, 1997; Rudnyckyj, 2009). As such, the emphasis of enforcing Islamic Law in the business sector is low, and thus the findings in this study do not reflect directly any specific religious beliefs such as Islam.

In terms of graduate quality, KAP, as well as other accounting firms, has currently noted some cultural differences in the newly-recruited graduates; suggesting that graduates have a preference to work in the corporate sector as their first career choice, rather than entering audit firms. They prioritise a 'work and life balance', and have freedom to move from company to company for a better remuneration and/or promotion. Many qualified graduates work in an accounting firm only for the sake of getting the 'status', and expect to leave the firm after a very short period. Such behaviours were supported by Jorgensen (2003) where the characteristics of Generation-Y are: (1) 'media savvy'; (2) comfortable with change; (3) self-confident and optimistic about the future, and (4) well educated. This creates a problematic situation for KAP, in that the graduates who apply to be auditors may come from universities with 'lower-than-premium' degrees, which affects the quality of audit skills and training before joining the firm.

## 6.7. Conclusion

In countries such as Indonesia and other Southeast Asian nations, the notion of family and a collectivist attitude is embedded strongly in behaviour. These are factors that may influence the manifestation of audit professionalism in Indonesia. There is evidence showing concern on whether or not the 'Indonesian' values will diminish in the firm. Elements such as founder's values, *kekeluargaan*, tolerance and ethnic backgrounds, are some of the drivers not found in Western studies. Thus, this study offers a valuable alternative view in understanding Indonesian auditors in relation to their professional attitudes.

Within the locus of organisation, Indonesian norms and values are of importance to explore when understanding the construction of identity within the professionals. One dominant factor revealed frequently during the interviews in KAP was the value of *kekeluargaan*, an Indonesian term to address the close and harmonious relationships of a member. To some extent, it is difficult to elaborate the definite meaning as *kekeluargaan* does not merely mean a 'family' in English. The notion of *kekeluargaan* is strongly embedded in KAP and can be generalised to a wider extent in society. Almost all interviewees had a chance to describe *kekeluargaan* as one element that cannot be separated from their identity, as well as KAP's organisational culture. The construction of *kekeluargaan* within the firm is perceived to be a challenging identification, in which many elements are a mixture of culture and norms that blend as the 'Indonesian' norms. For the Indonesian, bringing family issues and their daily lives inside their working life is important, as they consider having a close and personal relation reflects the notion of being "inside family".

On the other hand, there seems to be a tension between *kekeluargaan* and professional attitude perspectives. Prioritisation of harmony and family may eventually endanger the company's performance. There is a notion that having *kekeluargaan* is 'unprofessional' in the sense that the KAP staff may not perform as required by the firm. Such ambiguity persists between the local and global ways of doing business. Thus as an actor, the auditor faces a dichotomy in their own behaviour: between Personal and Professional logics. These values are active within the personality of an auditor and at times one will dominate the other.



## **Chapter 7**

# **Indonesia's Accounting Development and Professional Issues**

## 7.1. Introduction

This chapter explores the Indonesian accounting profession and its development. It focuses on scrutinising Indonesia's regulatory issues and the influence of Indonesian politics and economy to such accounting regulations. In general, Indonesia's economic and political systems continue to be influenced by so-called 'crony capitalism'; a cosy relationship between government, banks and companies insulates businesses from market forces (Perera & Baydoun, 2007). Under Suharto's New Order regime from 1968 to 1998, business was mainly ruled by Suharto's family and his cronies, extending to the domination of Chinese conglomerates and the few *pribumi* entrepreneurs. This illustrates how different 21st Century socio-political drivers are in Indonesia, markedly different from developed countries. Differences may include an orientation of accountability created by earlier political regimes (Sukarno's old-order regime and Suharto's new-order regime). Bureaucratic behaviour remained in a complete power in policy-making processes. This extends to the new accounting policies, particularly in the private sector. The bureaucratic logics are portrayed as an important factor in defining the profession (Hopper & Major, 2007). As Perera and Baydoun (2007) emphasised, the professional groups may be very heavily influenced by political issues such as areas of influence, money, family, social status, and military power, more than apply in Anglo-American politics. Thus, regulations and legislation are among the most important factors that govern the audit profession in Indonesia.

It can be said that the development and professionalisation in accounting in many developing countries has often undergone facing various obstacles, such as conflicts of interests between international and local bodies, serving capitalist interests as opposed to fulfilling local demands or the level of government involvement in developing the profession. This chapter illustrates issues related to Indonesia's accounting development and regulation, as well as professionalisation issues embedded in the regulation process. In relation to the main research question, this chapter describes the professionalisation stage in the auditors' career, the history of accounting regulation and the extent to which these regulations affect auditor's behaviour and actions in their professional attitudes. The chapter will document the extent to which Indonesian politics and socio-economy influence the development of the audit profession.

This chapter is divided into three main issues: the regulation and regulatory issues, the Big-4 involvement and the professional development in Indonesia. These central topics were revealed during the interview meeting with partners who were involved in the Indonesian accounting

association as executive members, and some partners who are concerned about the audit situation in Indonesia. (ref Figure A3: NVivo Analysis on Indonesian Politics and Economy and Figure A4: NVivo Analysis on Accounting Professionalism). The researcher concurred that these issues are influential to this thesis, in that the regulator, as well as the Indonesian government, plays an important role in defining and establishing accounting rules that govern accounting and audit standards in Indonesia. Moreover, it is also imperative to understand the extent to which the Big-4 participates in regulatory development and thus the Indonesian accounting profession.

## **7.2. Regulation and Regulatory Issues; Eating a Simalakama fruit<sup>12</sup>**

### **7.2.1. Findings**

Regulatory issues can be considered as much of an issue in developing countries as in first world nations. Deregulation and decentralisation processes, for example, have affected the governmental procedures in both district and municipal areas of Indonesia. After the fall of Suharto's New Order regime in 1998, the political situation transformed gradually from an authoritarian and centralised dictatorship into decentralised district authorities. There is a tendency that some regulations overlap or contradict other government agencies. As a result, delegation of policy-making has meant the local and municipal governments become more authoritative, and many policy areas overlap with the central ones. There are cases where business practitioners are confused as to what regulations need to be followed. The situation is worsened by the fact that this decentralisation creates new layers of bureaucracy, and subsequently appears to create new levels of corruption activities in the districts.

There is a high risk that the financial report would not be in accordance with the standard when the client has little interest in understanding the standards. This is becoming very common and the auditor is becoming the client's financial consultant, as well as their auditor. To some extent, business practitioners often take improper actions or abdicate responsibility in terms of financial reporting, such as one example described by a manager.

I think it's their [client] behaviour; they don't realise that the financial report is supposed to be their responsibility. What they have in mind is, "A financial report is intended to satisfy shareholders' interests, while my boss only needs a receivable

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<sup>12</sup> "Eating a Simalakama fruit" is an Indonesian expression of a no-win situation where all possible solutions have a terrible or undesirable outcome.

report.” As for a full report, such as balance sheet, profit and loss, and cash flow, they think that it is the auditor's responsibility. So I guess there has been a misunderstanding so far. (Manager, Audit, Male)

Thus it can be inferred that there is a sense of irresponsible behaviour amongst companies, in that financial reporting is less appreciated in the business community. One possible reason is due to less enforcement to comply with the proper financial reporting reputation by the relevant authority. Referring to the partner’s above comment on responsibility, there has been little punishment from the Ministry of Industry and Trade in forcing companies to comply with the law. Another reason is that there can be lack of accounting understanding from the company’s Chief Financial Officer (CFO) that financial reporting is the company’s responsibility. This reasoning is evidenced by one comment by a partner regarding the lack of accounting knowledge.

If you can see, the hospital finance director is a doctor, the oil and gas engineering finance director is an engineer, so how can you expect them to understand financial statements? This is indeed the missing piece that is evident in Indonesia, that whoever signs [the report], either Finance Director or Chief Executive Officer, should have the competence in financial statements or at least have gained a Chartered Accountant certificate. But that rule does not exist. (Partner, Audit, Female)

This reflects an idea that many industries possess little understanding of how important it is to establish reliable financial reports. Furthermore, the above partner also explained that in terms of updating accounting standards, few directors participate in the public hearings or any other training provided by the Association. Instead, it is only the accounting staff or managers who are assigned by the companies to join such training. She argues that it is the directors who should participate since they too are the ones who produce, sign, and take responsibility for the reliability of the financial reports. Hence, there is a lack of awareness from the business community to a certain extent.

Another case is where the government has little power of enforcement to control and monitor a company’s financial reports. A common problem in most developing countries is when regulation and law enforcement are implemented. Such a problem occurs when there is little interest and insufficient staff to execute the programme. One of the KAP partners expressed her concern that the state regulations and laws do not intersect appropriately.

Enforcement from the regulator is less; from the OJK [Financial Service Authority] is less. They [the regulator] are more on the listed [companies], maybe because they have staff shortages. Plus, do they have resources to oversee all financial reports and map them to the new standards? [I don’t think so.] (Partner, Audit, Female)

Q: Even the PPAJP<sup>13</sup> doesn't enforce?

Even worse! They don't have any resources whatsoever to check [the financial statements]. So the Auditor Association must be proactive to remind its members to carry out their duties properly. The OJK<sup>14</sup> staff and PPAJP have limited staff to do this job, so I can honestly say that the financial reporting mechanisms and [principles of good] governance in Indonesia are not fully implemented. (Partner, Audit, Female)

She expressed that there has been a degree of mismanagement between the accounting professional authorities and the financial service authority. The main problem occurs when a particular regulation, such as state laws, do not have any enforcement and penalty mechanisms with which to be monitored. The situation is worsened by the fact these authorities lack the numbers of staff to monitor all listed and unlisted companies. The lack of staff numbers and expertise is exacerbated when the educational institutions and universities do not prepare their students for such regulatory changes in accounting standards. Lack of teaching and knowledge update are some of the problems faced by the Indonesian government or regulators, as they have to grasp and deal with the latest updates.

The same partner also agrees that the infrastructure and systems of monitoring proper financial statements cause apprehension. She felt that most regulations focus on the listed companies, instead of the unlisted ones. Appendix 1 shows there is much legislation for limited and listed companies, but produces ambiguities to business practitioners.

Another obstacle to monitoring companies' financial reports is the lack of coordination amongst government agents. In some cases, there can be two or three ministries which produce similar legislation. The problem arises when companies, in particular the unlisted ones, do not entirely comply with the regulations. A partner explains the circumstances.

The limited company regulation (*Undang Undang Perseroan Terbatas/UU PT*) has a clause that a firm which has 25 billion<sup>15</sup> of equity must be audited. This is also a big issue, since who is going to enforce it? Who will ensure that such a firm is audited? The fact is that the financial report is submitted to the Ministry of Industry and Trade. The question is, what does this Ministry do with it? It doesn't have competent staff to review them, so why [submit it to the] Ministry?... So this is like the 'a vicious circle': Who fixes what? This is the reality I want to share, that this is no one's fault; it's the [lack of] systems (Partner, Audit, Female)

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<sup>13</sup> State Accountant and Appraisal Centre

<sup>14</sup> Financial Services Authority

<sup>15</sup> Equal to NZ\$2,600,000

There is a concern that some companies do not comply with the legislation or by-pass the requirements asserted by the State. The partner observed that there has been an issue of who or what authority is responsible for monitoring and assessing the financial report. As far as any accounting firm is concerned, this issue generates two consequences. Firstly, the financial report must be given to the Ministry of Industry which authorises the company's permit. This is required by the *Ministry of Industry and Trade Decree Number 121 / 2002*. According to the partner, this Ministry seems to have issues in terms of financial reporting expertise and staff. Moreover, it is believed that there is no proper coordination of systems between that Ministry and the Ministry of Finance. This leads to a second consequence: that the Ministry of Finance does not administer company regulations and financial reports; it regulates the accounting and audit profession. The partner concluded:

So the IFRS convergence and standards are there, but the mechanism to ensure the implementation is not there. The infrastructure hasn't been fully established yet. First, you need to have a regulation that governs the management responsibilities for financial reporting. Second, there has to be enforcement of any non-complying accounting firms, when [the company is] clearly not complying the audit opinion [and procedure]. The next thing is that the OJK [Financial Service Authority] must have adequate staff to assess [the financial reports], otherwise who can? Currently, accounting firms are laid back. They say, "So far I don't comply and no one scolds me, and I have been 10 years [in the industry] without catching up with IFRS, and I still survive." (Partner, Audit, Female)

There are some irregularities as a result of the above ambiguities. On one hand, companies listed in the capital market have strict requirements set by the Indonesian Capital Market Supervisory Agency. On the other hand, the supervision of unlisted companies is light-handed. One example describes the situation.

Yes, I have gone many times to the police station, to lodge a complaint. ... I said that there is a falsified report from a member. But because the member cannot show the original report, the police could not continue the case. There is one case related to the travel association. The members must be audited, but they did not disclose how much their total assets are; everything is only to fulfil the obligation. Apparently I found this case because there is a requirement that if you want to replace the auditors, the new one should communicate with the previous auditor. After checking back, the case was revealed. (Chairwoman, Audit Association)

In one case, there were efforts to bring charges against those who were disobedient, but little follow up was made by the regulator. The enforcement and penalty for those who violate the law seems difficult to implement. The above comment shows that the law enforcement institutions do not have the capacity to enforce the regulation. Prior to the latest legislation No. 5 / 2011 regarding public accounting firms, there was no law enforcement involving the

authorities to monitor accounting firms. Hence, the position of the Association as a public accountant controller is weakened in the eyes of the business community.

In relation to the authorities' behaviours, another finding was in the violation of codes of conduct. Auditors, particularly the smaller accounting firms, often act as financial consultants to any clients needing financial report assistance. A retired founding partner expressed his experiences in dealing with state-owned companies in the '70s when corruption and cronyism were strong in the business environment.

The State-owned companies have changed recently. Previously [they thought] 'What kind of creatures are accountants and auditors?' Like I mentioned, [there has been] a lot of formality, [there was] KKN [corruption, collusion, and nepotism], so the auditors were helping customers, and they thought, 'If we are looking for the accountant like KAP, they're all madmen!' [laughing] It's better to have our [auditor] friends, I can get a commission from there and it's easy to give an unqualified opinion. So we never had a client from a state bank. (Founding partner, Retired, Male)

The comment indicated that the history of the Indonesian business environment was heavily influenced by the bureaucratic environment and proved that there is a high level of corruption and cronyism. He illustrated that most state-owned companies were in favour of this behaviour. The orientation of most companies was to gain as much commission from their consultant or auditors, and they expected to receive unqualified opinions for their financial reports without any extra effort. In turn, having a credible and qualified accounting firm cannot guarantee the success of a business when approaching governmental agencies or state enterprises. More recently, the practices of corruption and cronyism have reduced, especially after the fall of Suharto regime in 1998. Nonetheless, some behaviour exists, in different forms nowadays.

Another "misconduct behaviour" in the accounting society, is the 'skeleton' accounting firm. This behaviour can jeopardise the accounting profession. The chairwoman of the Audit Association describes the current situation in the profession.

To be honest, the Society feels that there are some irresponsible people setting up 'skeletal' accounting firms. For example, there is one nameplate in a district with an accounting firm name. It turns out that after asking the Head Office in Jakarta, this name doesn't have a branch. So this is misleading... many "skeleton firms" exist in the directory and they even falsify the letter head, [by giving] invalid phone numbers (Chairwoman, Audit Association)

It is believed that such shadowy accounting firms exist due to low levels of enforcement and penalties from the government. Furthermore, the chairwoman illustrated that most such occurrences happen in regional areas outside Jakarta. There seems to be little control to monitor

regional accounting firms involved in projects and constructions undertaken by the regional governments. The phenomenon of having ‘skeletal’ accounting firms has driven the Audit Association to increase regular controls over its members. But the chairwoman explains that the accounting regulation promoted by the Association does not have the full support of the government. This can be identified in a comment regarding the low interest shown by the enforcement institution to eradicate such behaviour.

Nevertheless, a difficulty arises when there is a lack of competent staff and there is a low level of client understanding of audit procedures. The Chairwoman describes this behaviour.

There are some people doesn’t understand what audit is. They don’t know how to audit and expect someone is doing the job. [So I ask],”Was your report assessed?” [The man said], “No, I only hand in the report.” [I then ask],”How long did it take [to audit]?” [He said,] ”Three days.” “That’s not audit,” [I said]. So the Society’s understanding of an audit process is zero. Well, it is the profession’s task [to explain], but why [would they] have to learn something they are not interested in? (Chairwoman, Audit Association)

Q: So there is a crime going on here?

Definitely. Because between those who needed the audited reports and the ‘skeleton’ firms, both gain advantage. For example, if you have a company wanting to join a tender, without any expectation to win, why would it have to be audited seriously? Isn’t that only for [tender] requirements? So, I would take the 2-3 million rupiahs audit fee with 2 days audit process, and straight away submit the documents for tender. Once I got the job, and I need to be audited seriously, then that’s another case. So why would I spend 20-30 million rupiahs of audit fee when I’m not sure I will win? This is why there is no awareness of [the significance of] an audited report. (Chairwoman, Audit Association)

There is a clear indication that clients often treat financial reports as a formal ritual assessment to participate in certain business tendering processes. It is believed that this behaviour exists due to the smaller companies finding it unaffordable to employ expensive and qualified auditors. In addition, the regulator has little motivation to enforce such a regulation against smaller firms. The reason being, apart from the mismatch or lack of coordination amongst ministries and government agents, the focus of the legislation is meant to control most listed companies and to facilitate the liberalisation of the market in Indonesia. The latest regulation was issued in 2011, proposing to govern both the establishment and comprehensive monitoring of global accounting firms wishing to establish relationships (franchises) with local firms.

We are always close to the Finance Ministry. So if PPAJP wants to do a review, we will coordinate with them. If they review one accounting firm, we will review other firms. But we don’t review accounting firms too often as they will be very busy because of us (Chairwoman, Association)



### 7.2.2. Discussion

As described in Chapter 3, in Indonesian history and in particular during Suharto's regime, the main issue was the conflict of interests between the 'technocrats' and the 'economic nationalists or politico-business bureaucrats' (Cassing, 2000; Irmawan, Haniffa, *et al.*, 2013). There was a vast impetus from the Indo-Chinese and *pribumi* conglomerates to protect their interests and influence political and economic policies in the inner circle or the presidency, while other impetus came from the open-market ideology of the technocrats. This has produced a steady alternation of economic policies for more than 30 years, and thus affected the development of the accounting profession (Irmawan, Haniffa, *et al.*, 2013). In relation to the accounting profession, the World Bank also participated in the accounting development in the capital market.

Since the 1997 Asian economic crisis and the fall of the Suharto regime in 1998, successive governments have been supporting global requirements suggested by the World Bank, the Asian Development Bank (ADB) and the International Monetary Fund (IMF). In this sense, the technocrats dominated state policies and supported such policy reform. In order to achieve economic and political recovery, the Indonesian government had to reform some of the regulations by allowing deregulation from the central state to regional authorities, dismantling state-owned sectors and introducing institutional reforms in banking and public management (Hadiz & Robison, 2005). The drastic changes have destabilised Indonesia's political and economic situation, and attempts to liberalise the market were seen as ambiguous and uncertain. In addition, Hadiz and Robison (2005) illustrated that the neo-liberal impetus caused Indonesia to experience several disadvantages: poor policy choices, partial implementation of policies, poorly developed regulatory institutions, lack of state capacity to control, and inadequate social capital to support the market.

These findings illustrate the many regulatory issues in Indonesia. Many of the problems raised are due to duality of authority between central and regional states. It is believed that deregulation processes have also caused duality of policies between ministries. Such tension between constitution and laws often occurs since the Suharto regime and continues to worsen. Decentralised policies affect the effective implementation of legislation by central government, ministries and municipal governments. There seems to be little evidence of any effort by the government to disseminate their policies throughout the regions. The preparation to decentralisation was sparse, leading to a concern that this programme was not fully supported

by the central government. Concerns about the degree of delegation to the district levels was also evident, leading to a situation where local government elites are expected to govern, although the aims of the decentralised policy was to improve accountability and transparency in local government (Harun, Mir, Ali, & An, 2014).

Decentralisation to local authorities has led to several key issues, including the readiness and skills of staff, infrastructure, budget and other aspects of the socio-environment. Alm, Aten, and Bahl (2001) illustrated issues raised by decentralisation unpreparedness: uncoordinated laws and regulations which determined expenditure assignment and powers; unclear guidance of governmental transfer design and implementation; unclear objective priorities of decentralisation; evaluation indicators difficult with unclear objective statements, and the extent to which decentralisation can boost economic development must be fine-tuned.

The overlapping regulations create major problems for investors as there are uncertainties in the business environment. Farming, forestry, and mining industries have similar problems in determining which regulations to follow. One example from the forestry sector shows the overlapping policies between government authorities.

While the Ministry of Energy and Mining Resources has overall responsibility for regulating mining in the country, it is clear that there are coordination problems with other ministries. This is particularly the case with Forestry. Competing regulations and their interpretation continue to be a major problem for investors... In addition, decentralisation has added new layers of bureaucracy to this complex picture. (O'Callaghan, 2010, p. 223)

The issues create similar situations for the accounting profession, where two ministries have promulgated quite separate regulations and responsibilities, while business practices often find these overlapping, and with a low level of enforcement. Table 7.1 as follows lists legislation relating to financial reporting issues.

Under Legislation no. 5/2011, the law governs and protects the accounting profession and anticipates public demand for integrity and professionalism. The ratification of this law supports previous ministerial decrees (see Table 7.1 overleaf).

There has not been a supporting rule of law that specifically regulates the public accounting profession in Indonesia, which so far is only contained in Ministerial Regulation 17 / PMK.01 / 2008 about public accounting services and Act No. 34 of 1954 concerning the accreditation of accounting degrees ratified by the Ministry of Finance (Hatta, 2012).

<b>Legislation No.</b>	<b>Content</b>	<b>Related Ministry</b>
Undang-undang No. 5 / 2011	Public Accounting Firms Law	Ministry of Finance
Undang-undang No. 21 / 2011	Financial Services Authority (OJK) Law	Ministry of Finance
Undang-undang No. 40 / 2007	Limited Enterprises Law	Ministry of Justice and Human Rights
The Ministry of Industry and Trade Decree No. 121 / 2002	Provisions of the company's annual financial report submission (LKTP)	Ministry of Industry

**Table 7.1. Legislation relating to Financial Reports**

The legislation *21 / 2011* governs establishment of the Financial Services Authority. This institution is intended to be independent and free from other parties' interference. It regulates, supervises, inspects and investigates the banking sector, capital markets, insurance, pension funds and other financial institutions (Indaryanto, 2012). The legislation *40 / 2007* is intended to regulate public limited companies operating in Indonesia. This includes regulations concerning the formation of a limited firm, board members, board meetings and equity arrangements. More specifically, Article 68 emphasises the importance of an audited report for a limited company:

The Board of Directors must deliver the Company's financial report to an accounting firm for auditing if: the Company's business is to collect and/or manage the public's funds; the Company issues acknowledgements of indebtedness to the public; the Company is a Public Company; the Company is a state-owned liability company; the Company has assets and/or a business turnover worth billion at least Rp. 50,000,000,000 (fifty billion Rupiah)<sup>16</sup>; or it is obligatory under legislative regulations. (UUPT, 2007)

Under the *Ministry of Industry and Trade No. 121 / 2002* Article 2, Paragraph 2, it is stated that a company must submit its financial report to the Ministry if it meets the following criteria.

A public listed company; which has business related to the mobilization of public funds; has issued a letter of acknowledgment of debt, has assets worth at least 25 billion rupiahs, and; a debtor whose annual financial statement required by the bank to be audited. The financial reports must be audited before submission. (Kepmenperindag, 2002)

As far as policy makers are concerned, there are at least four pieces of legislation and/or decrees related to the accounting profession and financial reporting. Based on the related ministries that

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<sup>16</sup> Equivalent to NZ\$5,200,000

develop the law, there are three ministries controlling financial reporting issues: the Ministries of Finance, of Industry and of Justice.

There are two interpretations of these regulations. Drawing on *Legislation 40/2007*, one article states that a company that has assets worth at least fifty billion rupiah must submit its audited financial reports. On the other hand, the *Ministry of Industry and Trade Decree* states that one of the requirements to submit a financial report is that a company must have at least a twenty five billion rupiah of assets. This creates an ambiguity for business practitioners, as to what legislation is to be followed, while the supervision of such legislation is also ineffective.

Another State body, the PPAJP<sup>17</sup>, offers accounting and appraisal services and carries out the task of adviser and superintendent to the profession, together with appraisal of Public Accountants under the auspices of the Secretariat General of the Ministry of Finance (PPAJP, 2014). Its task is to formulate policies and to provide training for the Public Accountant and Appraisal profession, to develop and supervise Public Accounting and Appraisal services, registering and licensing accountants, and to provide law enforcement (administrative sanctions) to the members. On the other hand, the Indonesian Audit Association (IAPI) is an independent association that also develops the public accounting profession. IAPI is expected to meet *al.l* the requirements of the International Federation of Accountants (IFAC) relating to the public accounting profession and ethics, as well as to meet the requirements demanded by IFAC as set out in the Statement of Members Obligations (SMO) (IAPI, 2014). To some extent, there may be both controlling and monitoring issues for public accounting firms and the profession, generally.

### **7.3. The Big-4 involvement in the Accounting Association**

#### **7.3.1. Findings**

The Big-4 involvement in the Indonesian accounting and auditing associations cannot be separated from the need for a source of knowledge and expertise of Western audit and accounting practices. The Big-4 play an important role in developing Indonesian accounting systems, and contribute mainly to the development and training of local accountants and graduates. After independence, the first foreign accounting firm to re-enter Indonesia's business sector occurred in 1967, when Santoso Harsokusumo formed an accounting

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<sup>17</sup> State Accountant and Appraisal Centre

partnership with Arthur Young<sup>18</sup> (Tuanakotta, 2007). Since then, there have been both advantages and disadvantages of having alliances with foreign accounting firms in Indonesian business. One issue is that of equality between the foreign and local partners in managing the firm, as demonstrated in a comment by one of KAP's founding partners.

All the big finance accounting firms in Indonesia, the big six at that time, came in here and they took in an Indonesian partner, as decoration, a puppet and they will run the show themselves. They took in my cousin, Sutanto as their partner but they did not require him to go to the office; he had to sign the result of the audit, which was done and organised by the firm separately. The whole operation was done by the foreigners (Founding partner, Retired, Male)

This founding partner illustrates that during his leadership, many of the Indonesian partnerships with foreign accounting firms had little role in managing and controlling each firm. Firm management and finding clients were mainly controlled by the foreign partners. The term 'puppet' expresses an irony for the local partner not to have a full role as a partner. Instead, local staff and partners were often treated unequally in terms of handling clients, remuneration, and career progression. The local partners did not have full control over the company and had little opportunity to compete with foreign partners. This was evidenced by a founding partner who explained such conditions at that time.

The foreign partners were actually controlling and they were not training the Indonesian staff. They were trained only to do insignificant jobs and that's all. This meant that the general audit tasks were never taught to the locals and never learnt it. (Founding partner, Retired, Male)

There was little training provided to the local auditors as the foreign partners handled foreign clients, with commensurately bigger income. This pattern is quite common in other developing countries, as the Big-4 firms had a motivation to gain the high fees from foreign clients who invest in Indonesia and elsewhere. In addition, most of the clients were multinational banks such as Citibank and Bank of America, who receive projects direct from the local government. On the other hand, local partners were given only a small portion of clients, focusing more on handling local companies. This is also confirmed by another founding partner from another firm, stating there was unequal treatment between the foreign and local partners.

The Big-8 [now Big-4] flags were 'waving', but because the local partners were 'sleeping', the *bule*<sup>19</sup> were saying, "Why do you choose this kind of client?" They

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<sup>18</sup> Later merged with Ernst and Whinney to become Ernst & Young

<sup>19</sup> Bule is Indonesian slang word for 'white' people

didn't want hassles, or even look at it. So the local partners cannot follow what the boss wants, and they cannot serve local clients, hence the locals were abandoned (Founding partner, Retired, Male)

There was a clear indication that the foreign partners dominated client selection, in which foreign clients were preferred to the local ones. On one hand, there is a suggestion that the foreign partners were seeking a large share of the fee, while on the other hand, handling the local clients had potential risks, such as the occurrence of corruption and cronyism. Thus, the level of corruption and cronyism has hindered foreign accounting firms to accept both audit and business services for government and state-owned companies.

For more than 30 years, the Big-4 firms continued to assist the audit development in the Indonesian Accounting and Audit Associations, such as providing audit information and training to local auditors. Since the '80s, the Big-4 firms continued a strong relationship with the Associations, where most of the time, the chairs of the Associations originated from these largest firms. This is confirmed by one comment.

Arguably the Big-4 have a very strong relationship with the regulators such as IAPI [Audit Association] and IAI [Accounting Association]. It is no secret that the chairman is usually from ... [the Big-4]. It's like a social gathering; you take turns [between partners in the Big-4] and our partners, especially the senior partners who are active in these organisations. (Manager, HRD, Male)

The situation gradually increased disaffection and competition between partners from the Big-4 firms, versus smaller and unaffiliated accounting firms. Most issues related to audit and other business services clients preference for the Big-4, providing few opportunities for the smaller firms to attract potential larger clients. The issue also related to the chairman's election competition.

Indonesia at this time had a very unhealthy competition. The small [firms] felt they had to compete with the Big-4 and try every way to stunt them. So I told them not to do it that way. This is the wrong way of equality. Now there are such symptoms in the profession: stunting the Big-4 or the international affiliates firms. ... some say [the Big-4] is imperialism in accounting. If we say Indonesia should not be open to foreign investment, it will be always small. But if we want to be in international cooperation, we cannot change the Big-4. (Founding partner, Retired, Male)

His comment on this issue reflected that smaller accounting firms were threatened by the domination of the Big-4. To some extent, their position was unfavourable in terms of staff numbers, the firm's reputation, knowledge and expertise. Nonetheless, the founding partner suggests that the smaller firms must make more effort when competing with the bigger firms. Also, his accusation of the Big-4 as "imperialists" appears obvious in that the smaller firms

could not get the same opportunities in the market. The globalisation of MNEs and market capitalism has led foreign investors to choose the Big-4 as their auditors, instead of taking local ones. There seems to be a big gap between trustworthiness and reputation between the Big-4 firms and smaller firms in choosing an auditor.

A further comment regarding the smaller accounting firm's complaint of the Big-4 follows,

I am always upset that those [small firms] are jealous with the Big-4; [the Big-4] partner goes home late at night. So if the small accounting firms go home at 5pm regularly, they sure will get what they deserve. I just want to tell you that if you really want big [earnings], apply there [to the Big-4]. So don't be a petty king who grumbles and is upset about the Big-4. We must learn to avoid an insular mind set. (Chairwoman, Audit Association)

The chairwoman argued that it is the smaller firms who are considered lame in competing with the Big-4 firms. She felt that smaller accounting firms were complaining without any effort to compete with the Big-4. In comparison to their workloads and training, the smaller firms should make more effort to compete and learn from the Big-4. This is also confirmed by one partner in a small audit firm.

The last election in IAPI was deadlocked because there were two [electoral] packages. One package came from the small accounting firms and the other was from the Big-4, which came from the mid-tier accounting firms. The debate was biased since the majority of the association are the smaller firms. They also complained they had difficulties in finding clients, and for sure, always blaming the Big-4. My view is, are they [the smaller firms] capable enough? Do they have the marketing skills, good appearance or packaging? (Partner, Small Audit firm, Male)

It became clear that the propensity to blame the Big-4 firms for grabbing the large clients, such as MNEs and large local corporations, was because the smaller firms did not make enough effort to improve their audit expertise. Both the chairwoman and the small firm partner agree that by working as hard and as professionally as the Big-4 firms, the smaller firms could eventually be equal in the competition for business. Especially with Internet and fewer barriers to entry in this country, the smaller firms can have an equal chance to gain knowledge, training, and expertise with IT-based learning from outside Indonesia.

### ***7.3.2. Discussion***

In Chapter 2, it was described how the Big-4 accounting firms have been involved in the development of accounting systems in most developing countries. Some of these countries experienced the effect of the contribution as positive, as well as having some problems deriving from such involvement. It is said that due to the global demands and business expansion from

“Western” enterprises, developing countries have no choice except to follow these demands of the MNEs. Market capitalism has led multinational enterprises to invest in the Third World countries, which brings into focus the penetration of the GPN of the Big-4.

There was an increasing demand to bring in international accounting firms as well as their expatriates to Indonesia from 1968 until 1976. Tuanakotta (2007) described that in 1968 there were only four expatriates working in two affiliated accounting firms. Over the next ten years, the growth of expatriate auditors expanded twenty times up to 94 staff in eight affiliated accounting firms. The increase in staff numbers was due to the increasing demand of accounting firms from multinational companies and state-owned enterprises such as Pertamina (a state-owned oil and natural gas company). Nonetheless, problems occurred when a large number of expatriate auditors were not eager to offer support to accounting development, the profession, and the discipline of the accounting firms. Hence, there was a mismatch between the number of international accounting firms, expatriate staff, and the local profession in trying to compete in the market and govern the accounting firms’ development.

To some extent, the purpose of allowing the Big-4 firm into a particular nation as seen by the State, is to deliver technical and knowledge expertise. In order to meet global requirements, there is a need to improve the quality of local auditors so they can compete with foreign expertise and provide adequate audits. As stated in Chapter 3, the local partners were treated differently to foreign partners. These ‘special treatments’ related to locals having reduced roles as partners, in client management, remuneration, and career development. The word ‘puppet’ expressed by one founding partner represents an imagery as not actively being involved in the management of the firm, being the front smiling face, and doing whatever they were told to do. This situation was confirmed by Tuanakotta (2007) where he mentioned four competitive occurrences during this period:

- 1) The foreign partners were too aggressive, leaving the locals to become ‘puppets’ in the partnerships
- 2) Many joint partnerships violated agreements
- 3) There are doubts that the foreign partners educated local accountants, as there were many staff and partners recruited from other firms.
- 4) There were no restrictions on the foreign working year and numbers of foreign partners.



This is also confirmed by studies by Uche (2002), Yapa and Hao (2007) and Yapa (2010): the Big-4 undertook little activity to address local and domestic business interests. Thus, the first ‘invasion’ of the Big-4 had a different impact to that expected for partnerships in Indonesia.

The Big-4 remain dominant in the Indonesian accounting profession. For example, since the establishment of the Indonesian Accounting Association, three out of four founding partners have had an “exposure” to the Big-4 firms (either as corresponding or joint partnerships). There have been competing interests between the Big-4 and the smaller firms in terms of market share and influence on the Association. Based on research by Tuanakotta (2007), the Big-4 dominate the audit and advisory services of the listed companies.

Table 7.2 as follows compares the number of clients of listed companies served by Big-4 and the non-Big-4 accounting firms. The number of Big-4 clients is decreasing, while the non-Big-4 client numbers increased from 2004 until 2006. However, although the number decreased, the Big-4 clients have higher total assets compared to the non-Big-4 clients. This suggests the Big-4 are focusing on the bigger companies, and mostly on multinational firms. Also, referring back to the historical perspective, one of the comments was that the Big-4 preferred foreign and large multinational enterprises, instead of servicing local and smaller clients. Tuanakotta (2007) argued that the Big-4 delegate such hassles to smaller and local firms, or assign local partners to handle them.

		<b>2004</b>	<b>2005</b>	<b>2006</b>
Number of Clients	Big-4	172	150	139
	Non Big-4	156	176	187
Client Assets (in million rupiahs)	Big-4	Rp. 1,316,523	Rp. 1,471,603	Rp. 1,647,158
	Non Big-4	Rp. 225,193	Rp. 279,511	Rp. 337,866

**Table 7.2. Big-4 and non-Big-4 listed clients**

Source: Tuanakotta (2007)

It appears this behaviour continues within the Big-4, and only the largest clients can afford to pay for their services. On the other hand, it is also possible that the Big-4 are ‘allowing’ the smaller firms to take over smaller firms as their clients as a path to growth. The main point is that there is distinctive size-based market segmentation between the Big-4 and the non-Big-4 firms in the Indonesian audit industry. To some extent, this finding provides little evidence that

the Big-4 are accommodating the needs of both local audit firms and the domestic environment, although the involvement in the Association is relatively high. As such, the Association has created an accounting standard for the non-listed entity called the SAK-ETAP<sup>20</sup> (the accounting standard for entities without public accountability).

## **7.4. IFRS Adoption Issues**

### **7.4.1. Findings**

In terms of accounting development, it has already been described how Indonesia has undergone several stages. As a former Dutch colony, Indonesia was influenced by the Dutch accounting systems before the establishment of Indonesia's accounting profession. Soon after the Association was established in 1957, Indonesia started to adapt the American Generally Accepted Accounting Principles (GAAP) into local standards. The problem at that time was that there was a lack of audit references and training, thus leaving auditors to rely heavily on university textbooks for guidance.

Our disadvantages was that we were far behind the standard, [which included] auditing. [At that time], the name [of the standard] was Indonesian Accounting Principles or PAI, which was taken from the Generally Accepted Accounting principles authored by Paul Grady. I still sit as a member there, and that's all we've got. For audit standards, we have NPA [Accountant's Assessment Norms], and I was chairman. So that was the disadvantage (Founding partner, Retired, Male).

Due to shortage of information and references, the founding partner explains that only by relying on American textbooks were auditors able to perform their professional assignments.

The major current issue related to the professional development is the IFRS convergence to Indonesian accounting standards. The need to improve Indonesian accounting standards was strongly influenced by the Big-4 auditors, in order to keep pace with the demands of the global market. The International Financial Reporting Standards (IFRS) that were introduced and developed by IASB since 2001 has led these firms to promote IFRS adoption to the Indonesian accounting standard regulators. The first attempt to adapt the International Accounting Standards (IAS) started in 1994 (Maradona & Chand, 2014) and the official announcement to adopt the IFRS into the local standard took place on 23 December, 2008 (IAI, 2012).

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<sup>20</sup> SAK-ETAP is similar to the standards for Small and Medium Enterprises (SMEs)

Subsequent to this plan was that the IFRS standards were to be implemented on 1 January, 2012.

However, the implementation of IFRS adoption faces many obstacles, not only from business practices but also from local auditors who need to frequently update their knowledge of the standards. It is from business practices, however, that most complaints originate, where they believe the convergence is not appropriate for current practice. Even though they acknowledge that drivers of globalisation and liberalism are heavily implicated in efficiency of capital markets, they tend to reject such proposed changes. The findings reflect some of the issues described above. One example is that Indonesian accounting standards are currently moving from the previous adoption of local GAAP into IFRS-based standards. Such a change causes auditors and their clients to work hard in order to follow the standards, although not all clients are able to understand the issues. In some cases, it was found that auditors also have difficulties understanding local standards, compared to IFRS, so many of them end up relying on international standards.

[KAP] normally complies with the international standards, which are more rigid than the local... First, we have to comply with a higher level of standards...maybe in the smaller firms that you have, what to call that, they comply with the local standards which are not yet ready to be upgraded to international standards (Advisor, Audit, Male)

The advisor explained that the international audit and accounting standards, referred to as IFAC and IFRS, have more reliability in terms of recognition, guidance and being accepted worldwide. As an expatriate advisor in a Big-4 firm, the interviewee focused on how to work professionally based on the standards recognised internationally, which may enable him to guarantee his professionalism at work. He argued that in using Indonesia's local standards, he doubted their value as they were not being upgraded to the international standards. Moreover, he illustrated that most of the local clients, as well as smaller audit firms, were using the local standards, which are written in *bahasa* Indonesia. To some extent, there is a problem of translation from English to *bahasa*, which often results in ambiguity for both auditors and clients. One example describes this.

Because the Indonesian [standard] has a lot of [fuzzy] words, one example is that of a lot of words in the PSAK is still ambiguous or random. For us to understand the terms can sometimes be [uncertain]: it could be A or B ... Recently, a client complained about a cash flow terminology in PSAK, it is said that net income is used for cash flow. But in the implementation, it uses pre-tax income. So there may be many [unclear] words (Senior auditor, Audit, Male)

The senior auditor expressed his concern that his client had difficulty in interpreting the PSAK in regard to the basis of the cash flow statement. In this case, the net income is the amount used to disclose the opening balance of a cash flow statement. In reality, it is the pre-tax amount that is used. It seems that the client has little confidence in following the local accounting standard and consequently relies heavily on their auditor for consultation. In terms of language issues, there remains a language barrier amongst accountants in terms of understanding the language of IFRS. Since it is written in English, without any direct translation from the experts, the likelihood is that the meanings of the IFRS texts may be perceived differently by Indonesian accountants and auditors. Moreover, there is little confidence to ask questions in any public forum, which creates more ambiguity in understanding the standards. The following comment illustrates this concern.

In the Philippines and Thailand there are a lot of accountants, and in the Philippines a lot of members have good English so they can learn IFRS faster. Sorry to say, the Indonesian accountants' English is not good; even the Big-4 have only a few. And this is proven during international conferences; not many [Indonesians] asked questions because they are not confident. (Director, Audit Association, Female)

It is likely that during the translation process from the IFRS in the English version to the Indonesian *bahasa*, some translation and interpretation may not be entirely accurate due to misunderstandings of wording and sentences, as well as lack of appropriate terminology in the target language. This also occurs in many non-English countries: that some terminology may not match the lexicon in their respective language. The comment on 'fuzzy words' can be a case of misinterpretation between languages, as will be further discussed below.

Both the business community and accounting professionals are experiencing major changes in the way accounting practices are commonly applied. To some extent, small and medium firms of local auditors and their clients maintain the status quo. Again, little enforcement from the authorities leads to less interest in learning and less eagerness to transform to the new standards. As a result, since 2007 accounting firms, pioneered by the Big-4 as well as the Accounting Association, have started to promote IFRS adoption and yet the market has only moved slightly in that direction. One explanation is given below.

The client feels that the convergence is too soon. I felt the same as well and I was part of that mistake. But at the end of the day, everybody understands that we have to do that before it is too late. We have to start, so it is understandable [that clients are having difficulties]. (Director, Accounting Association, Female)

There seems to be a considerable gap between the efforts by the Association, the Big-4 firms, compared to the readiness of the business community, to implement the new standards. The director of the Association has no option but to enforce the new accounting standards based on the IFRS adoption. There is widespread refusal to have the new standards, and most of this is coming from business practitioners. The situation is illustrated by the participation in the public hearings organised by the Accounting Association.

It is clearly proven that every time there is a public hearing from the Standards Board, there are limited comments [from the practitioners]. If any, it is more into editorial error and never touches substantive parts. And then, every time we held a working group that invites stakeholders, they are so passive. At the end of the day, we had to spoon-feed them as they were actually here to learn and not to give input, *let al.*one challenge us. Then next, in terms of convergence, they always ask us to postpone the implementation at the last minute. There are numbers of business associations wanting to postpone for a month; or others like insurance associations which requested postponement for five months after the commencement date. What have they been doing for the last two years [when the hearings were started]? So this is the kind of behaviour [we faced] and maybe they assume that [the convergence] is unimportant. (Partner, Audit, Female)

As previously mentioned, the Accounting Association has adopted IFRS over local Indonesian standards in order to keep on track with movement towards IFRS worldwide. Many of the countries begin to adopt IFRS for harmonisation purposes. On the other hand, the Indonesian business sector seemed to disregard the importance of having IFRS as part of its reporting systems. It can be inferred that companies, especially the non-listed enterprises, may not see this is a case for urgency.

Another problem in implementing IFRS-based standards is that not all accounting firms in Indonesia have the capability to improve their staff and technology. Despite having the Audit Association to rely on to obtain knowledge and training, the small accounting firms make few efforts to update themselves with the latest accounting information. One comment addressed this circumstance.

Yes, the difficulty for smaller accounting firms is that they don't have a knowledge centre. When I was in Andersen, if I don't have anything to do, I browse the global best practice. [What about] local [firms]? Now, I have difficulty with to whom I should ask, the Audit Association doesn't have a help desk. So I decided to call a friend and then joined a Postgraduate in Accounting class and met some Big-4 colleagues. I started to ask a lot of questions regarding IFRS. By the way, IFRS for local firms is a pain in the butt (Partner, Small Audit firm, Male)

There seems to have been insufficient information promoting the latest update on the convergence processes. The partner expressed his concern that many small and local

accounting firms do not have access to such information, and hence rely on Big-4 colleagues for any accounting updates. This situation is much easier for the staff in KAP where they can access the global resources easily.

Sometimes, because of the principle base, there are some unclear transactions. So no doubt the staff will ask the [International firm] networks about IFRS. There is a question and answers, and applicable resources they can search. Hence, the staff will have to keep up to date with the updates, either from the IASB or [international firm] websites. (Partner, Audit, Female)

It appears each side is experiencing different situations: on one hand, the Accounting Association has put in much effort to deliver the “exposure drafts” publicly, by providing public hearings throughout the transition period, and allowing business practitioners to inquire as to any issues regarding the IFRS convergence or sharing difficulties in their application to industry. On the other hand, the clients are considering the convergence as an involuntary transformation, as they seem to agree that their financial reports can be well taken care of by their auditors. Moreover, the partner indicated that the best possible means to enhance global knowledge is by accessing resources provided by the Big-4, instead of relying on the Association. Hence, there are doubts that the Association is accommodating local needs.

If you can see in the capital market, one case is treated with a different accounting treatment, the Capital Market Authority cannot even say a word and neither can the Accounting Standards Board. (Partner, Small Audit firm, Male)

This can also indicate the ambiguity of regulations governing financial reporting standards. Some on-going standards have not been fully disclosed to public by the Association or the respective authorities. There seems to be a deliberate delay in implementing the IFRS, due to the fact that practitioners and the government agents have little interest in the changes. Moreover, there are only a few knowledge centres through which to make enquiries about issues in IFRS. This causes practitioners to rely heavily on their auditors, mainly the Big-4 firms. The authorities have little expertise in this area, resulting in less enforcement on the implementation of IFRS.

One case was described regarding the accounting treatment for property plant and equipment. There have been debates about the treatment of a communication tower as to whether the property is treated as an investment or a fixed asset.

The Big-4 has regular meetings to harmonise any accounting treatments. For instance, PSAK 13 is about investment property: none of the Big-4 are willing to regard a tower as within PSAK 13. Instead they use PSAK 16 of Property Plant and Equipment. One company uses PSAK 16, revaluation model and another listed company uses PSAK 13.

But after further discussion, they decided to use PSAK 16 as the treatment [of a telecommunication tower]. (Partner, Small Audit firm, Male)

In this respect, following an IFRS-based standard produced ambiguity for both auditors and clients. To some extent, interpreting such treatments requires a high level of justification and professional judgements from all components; auditors, business practitioners and the government. Such a change of systems from rule-based to principle-based not only deals with the technical changes, but also the readiness of experts to justify the causal effect of a particular accounting treatment. This situation is confirmed by a founding partner.

Nowadays, if you test auditors who have a licence, not even 10% understand accounting standards. The accounting standard is not easy, which is different to 5 years ago. They are changing from rules to principles. The 'Rule' is a rule, but the 'Principle', you need to mature (Founding partner, Retired, Male)

Another finding is the issue of IFRS translation. As with so many other non-English speaking countries, Indonesia may be considered to be a country having little historical connection with the British Empire. As a non-Commonwealth nation, Indonesia may experience different developments of language, as well as a barrier to comprehend English as the *lingua franca*. In reality, English competency within the Indonesian population is relatively poor, compared with its neighbouring countries such as Singapore, Malaysia, the Philippines and the Indian subcontinent. This may especially occur when the Accounting Association has to directly translate the English version of the IFRS texts, while the meaning in Indonesian and interpretation of concepts may be misleading. Baskerville and Evans (2011, p. 37) address five specific translation problems related to technical accounting concepts. These are:

- 1) uncertainty/probability expressions,
- 2) complexity of syntax/sentence structure,
- 3) concepts with wider or different meanings in 'everyday' language,
- 4) terms denoting different concepts or multiple meanings, and
- 5) undefined or indefinable concepts.

There are doubts and ambiguities when translating English into a specific language; that depends on the richness of the recipient lexicon and the expertise of the interpreters to translate such terminology.

#### **7.4.2. Discussion**

The development of Indonesian accounting standards should not be separated from global market influences. In order to understand the accounting profession and such standards, one

must respect the historical content of its development. Maradona and Chand (2014) describe three periods of Indonesian accounting standards development. The first period was from 1973 to 1990 and focussed on early formulation of these standards. The second period was between 1990 and 2007, when the accounting standards developed offered an alignment with both international best practice and accommodating local needs. The third period is from 2007 onwards where the IFRS standards were adopted through several phases.

In 1973, the first phase was characterised by the presence of the first Indonesian accounting and auditing standards, promulgated by the government and the Indonesian Accounting Association (Irmawan, Haniffa, *et al.*, 2013). These standards were heavily influenced by the US GAAP and the “Inventory of Generally Accepted Accounting Principles for Business Enterprises” by Paul Grady. This was confirmed by the founding partner's comment as already described. Furthermore, the purpose of adapting the US GAAP was to respond to capital market demands rather than to accommodate the reporting needs typical of Indonesian business complexity (Irmawan, Haniffa, *et al.*, 2013). There was strong support to adapt the US standards as there was a diminishing influence of the Dutch accounting systems, and the ‘handing over’ by the ex-Dutch enterprises in Indonesia. Moreover, the significant increase of foreign investments and the oil price-boom had led the Indonesian accounting profession and the government to adopt the American accounting systems. This was also supported by the political decision of the Suharto’s New Order regime of open policy and liberalism in the Indonesian business sector.

The second period was the development of the Indonesian accounting standards. There were two major events in relation to this. The first was that in the early 1990s, the Indonesian market was highly influenced by the on-going development of the capital markets post-1987 Crash. More than 200 firms actively participated in the Jakarta Stock Exchange (Maradona & Chand, 2014). The second major event was prior to the decision to adapt IFRS in 2008, as the Indonesian Accounting Association had already decided to change its basis from the US GAAP to the International Accounting Standards (IAS) in order to support the accounting harmonisation programme initiated by the International Accounting Standards Committee (IASC) in 1994. Hence, this period marked the improvement phase of Indonesian accounting standards, in order to be aligned with both the capital markets development and the IASC.

The third period occurred in 2007 when the Association announced the codification of Indonesian accounting standards and the support for IASB convergence. The implementation



of IFRS convergence faces many obstacles, not only from business practices but also from local auditors who need to invest much effort in updating their knowledge of the standards. The business community in particular is the source of the majority of complaints, as companies believe adoption is not appropriate for current practice. Even though they acknowledge that drivers of globalisation and liberalism are heavily implicated in capital markets, they tend to resist such changes. Both business people and accounting professionals are experiencing major changes in the way accounting practices are commonly applied.

For Indonesia, there are also issues that relate to both factors: not many Indonesians have English proficiency, and not many accountants are interested in scrutinising accounting literature to gain familiarity with the expert language. Immanuela (2009, p. 5) summarised the obstacles facing the Indonesian accounting standards in relation to IFRS convergence as:

- 1) The translation problem itself: IFRS is published in English and needs to be translated, while the translation itself is facing inconsistencies, especially in the use of English phrases. The use of the same term to describe different concepts, and the English terms used do not have the Indonesian equivalents.
- 2) The discrepancy between IFRS and the national law: in several countries, accounting standards are included as part of the national law, thus it is written based on legal terminology, whereas in cases such as Indonesia, the IFRS is free-translated by the Accounting Standards Board.
- 3) The structure and complexity of the international standards: the adoption of IFRS raises concerns that the standards will be 'thicker' and more complex.

There is an issue of different sets of national law as far as accounting standards are concerned. As with many countries, State laws may vary compared to international standards. This consequently affects the accounting for special treatments; for instance, the treatment of equity for limited companies with varying ownership structures and cooperative entities are different.

This brief explanation reflects some of the reasons why IFRS adoption by Indonesia is progressing slowly. There is a considerable effort by the Accounting Association to promote IFRS-based standards, while business practitioners and the relevant authorities are somewhat unwilling to promote the adoption. Although many government agencies are expressing a positive response, the implementation appears otherwise. So while IFRS convergence is still in progress towards full adoption, the business leaders, the public and regulators face uncertainty as to what extent the revised accounting standards are being fully applied.

Currently, the Association as well as the Capital Market Supervisory Agency are allowing options for companies, especially listed ones, to either utilise the partially IFRS-based local standards or to fully implement the international standards. Hence, as far as the regulatory enforcement is concerned, the regulation is not definite and considered weak from the business and international, or multinational corporations' points of view.

The above situation is confirmed by Maradona and Chand (2014): the issue of implementing IFRS in Indonesia faces four impediments: the perceived complexities of certain accounting standards; judgement and interpretation of accounting standards; issues in training and development, and remaining differences between IFRS and Indonesian accounting standards. These complexities of the professional milieu were described by the KAP partner, the Accounting Association director and a partner from a small accounting firm in this chapter; and are clear indications of the significance of this issue. Alongside inadequate training and other such 'development' factors, IFRS convergence appears as a process of coercive isomorphism (DiMaggio & Powell, 1983) in that one institution pressures another in order to pursue conformity and homogeneous standards in the accounting profession, which is heavily influenced by Western society and global MNEs. Hence, the profession is surrounded by uncertainties in implementation, regulation and preparedness, even as it responds to coercive pressures.

In terms of accounting ambiguity described in the analysis, Maradona and Chand (2014) confirm that the telecommunication assets can be treated according to both IAS 16 on fixed assets (equivalent to the PSAK 16 in the local standard) and IAS 40 on investment properties (equivalent to PSAK 13). A shared-used model of the telecommunication tower leads to uncertainty as to whether the object should be treated as a fixed or investment asset. Consequently this may lead to a different measurement basis that allows different figures in the profit and loss statements, which eventually affect comparability amongst telecommunication financial reports (IAI, 2012). This issue is currently being discussed and debated amongst auditors, the Association and business practitioners. As such, the decision to have an authoritative accounting treatment was immediate, in order to indicate the appropriate figure at which to recognise the respective assets.

## 7.5. Conclusion

This chapter illustrates some of the issues relating to Indonesian accounting development, and the influence of the Big-4 firms within this development. Some of the findings reveal statements expressed by KAP auditors in relation to their capabilities. The three central topics represent the majority of comments that allow the researcher to understand their thoughts, as well as to discover their shared norms and values. These findings indicate possible logics that drive such norms, in order to map the overall understanding of a unique organisational culture, and eventually to determine what constitutes the manifestation of an Indonesian auditor's professionalism.

Firstly, there is a recurrent narrative that the few uncoordinated enforcement regulations cause uncertainty and ambiguity for auditors and their clients. The auditors may experience distrust in using the local standards as well as national regulations. There is a belief that the level of trustworthiness of auditors is low compared to the International levels. In carrying out their duties, an auditor must have a clear indication of what and how he/she must perform in the field, and how he/she should comply, based on the standards. As Indonesian accounting standards are gradually converging with IFRS-based standards, an auditor must be aware that a high level of judgement and capabilities is needed to justify an accounting treatment. On the other hand, an auditor's professionalism must be fully supported by strict and clear regulations; otherwise the decision could be biased and unjustifiable. One example is the communication tower accounting treatment. Hence, weak regulation can be regarded as the driver to ambiguities in an auditor's institutional logic.

Secondly, the Big-4 have been contributing to the development of the Indonesian accounting profession. Since the establishment of the Indonesian Accounting Association, participation by partners from the Big-4 to develop the profession is relatively high. On the other hand, the domination of the Big-4 in the Indonesian audit market is also high, and they control the majority of listed firms. In terms of the auditor's perspective, the domination of the Big-4 in the Indonesian Audit Society has increased awareness of the role of the capital markets for auditors. There is a likelihood that the auditors react to a high level of market demand, instead of focusing on the public interest. The notion of fiduciary and corporate logics, initiated by Thornton *et al.* (2005), can be applied in this context.

Lastly, Indonesian accounting development has undergone several processes in order to conform to global market demands. In an attempt to follow the global demand, Indonesia is currently promoting IFRS in place of its local standards. By gradually converging each accounting treatment, the local standard attempts to close the gap with the international standard, while simultaneously accommodating the non-listed entities by continuing with non-IFRS standards. In terms of an auditor's perspective, there a high level of capabilities to utilise these standards, but auditors may be overwhelmed with audit assignments. In this sense, there is a conflict between mastering the number of standards and the implementation of the standards in the field.

With time constraints, the logic is whether or not a career as an auditor remains an attractive option compared with corporate positions. This phenomenon has become one important issue, as not many graduates are interested in becoming auditors as their first career, and a high turnover occurs in many accounting firms in Indonesia. This illustrates that Indonesian accounting development has experienced some critical hurdles on its way to change the current standards. The sufficiency of expertise, training and knowledge centres, the number of staff recruited, the infrastructures and the readiness of law enforcement, are some factors that need to be continuously assessed in order to successfully implement IFRS accounting standards and the IFAC auditing standards. In relation to audit professionalism, in this situation there is a considerable degree of ambiguity and doubt in achieving audit independence, integrity and objectivity. Hence, such factors are some key drivers towards resolving tensions in an auditor's institutional logics.

## **Chapter 8**

### **Client Behaviours**

## 8.1. Introduction

This chapter explores the extent to which client behaviours can affect audit professionalism. In many cases, clients are perceived to be an influential factor in forming an auditor's attitude and behaviour. Moreover, it is believed that the business community can be influenced by the nation's culture and norms. Many studies acknowledge differences in doing business between the Western and the Eastern societies and there are norms and values that need to be appreciated when doing so. In the case of Indonesia, there is strong evidence that the Javanese culture is an important aspect that continues to dominate the Indonesian business context. To some extent, there is an increasing trend in studying Javanese culture, although few studies have related it to the accounting and auditing contexts. Thus, this chapter attempts to interpret some of the Javanese values of *rukun* (respect) which manifest themselves in the relationship between auditors and their clients. The chapter also illustrates how different points of view can create tensions between each party, where an auditor must provide appropriate audit service and endorse high quality standards.

There is a body of research addressing how accounting firms interact with different types of clients. Other studies, in cultural contexts, focus on the establishment and the image of the global accounting firms, in particular, European areas such as Eastern Europe (Cooper *et al.*, 1998), the Scandinavian region (Wallerstedt, 2001), the Czech Republic (Sucher *et al.*, 1999) and also New Zealand (Baskerville & Hay, 2010). The perspective of these studies is from the global networking point of view. Nonetheless, there has been little attention to the role of a local 'actor' and their cultural view. This study attempts to discover the extent to which the local culture, particularly Javanese, retains a strong grip on both the auditors and their clients. Understanding how these parties interact and consequently become institutionalised within global accounting firms will help bridge gaps between the existing literature and the existence of 'localised' global accounting firms as in this study.

Deriving from the main research question, a sub-question is developed to guide this chapter: How do audit clients perceive their auditor from a Javanese perspective? The interviewees were asked the following question, "What is the effect of ethnicity stereotypes on an auditor's professionalism during the performance of your assignments?" The question expected to discover how a client's ethnic background influences auditor's professionalism in Indonesia. During the interviews, most interviewees expressed a high interest in describing clients' behaviour, such as their requirements of auditors, their attitudes, and the embedded Javanese

values (ref. Figure A5. NVivo Analysis on Client Behaviours). This chapter is divided into four central topics based on the analysed findings: which are client and consultant relationship in Indonesia; client hierarchical attitudes; client power, and client and ethnic stereotypes.

## **8.2. Client's Hierarchical Attitudes: Who is meeting who?**

### **8.2.1. Findings**

KAP, an international-affiliated firm, has a variety of clients ranging from multinational corporations to those in the public and governmental sectors. Its task is to ensure audit procedures meet the highest possible standards that the international firm requires and this aspect is presumed to be the “value added” component for KAP to remain a highly reputable audit firm. In the local context, KAP must be able to perform the tasks that facilitate what local clients need to standardise their financial reports in an acceptable manner, while delivering its audit procedures pursuant to ‘Indonesian norms’. The notion of serving as an Indonesian firm, while acknowledging the magnitude of values of an International-based professional service firm, requires a strategy to balance these two different cultures, especially when communicating with local clients. An interviewee confirms the high hierarchical communication style with the client.

Maybe for SOEs, I felt more difficult in getting the data, more stratified. And sometimes if the person has job description of A, he only knows A... [Most SOEs are] hierarchical. And sometimes the top levels don't want to know anything about audit. This is different with other clients where the top levels like to be asked [about audit]. (Associate, Audit, Male)

The associate indicates his concern regarding accessing data from a SOE client, and also felt a degree of intimidation when communicating with this client. Moreover, it is difficult to access senior management, as many of the directors have little interest in providing useful information to the auditors. Like many local firms, the SOEs have evolved from a strong bureaucratic culture and tend to possess the *bapakism* value of “being served”. In other words, they expect others to serve them. This associate, who had worked only for one year in KAP, may have experienced this obstacle because he was working for an old-fashioned client. Confirmation of this issue was expressed in the following conversation between the CEO and a partner.

A Like the SOEs, we need to see that sometimes these firms have ex-government staff, so we need to understand and respect their culture, surely. (Partner, Risk Management, Female)

... The Finance Director would not like to meet the manager. It should be the partner who is sitting. (Senior Management, Male Expatriate)

Q Does this still occur?

A Yes, it definitely does. (Partner, Risk Management, Female)

This conversation confirms the existence of a stratified and hierarchical system within an organisation such as a SOE, where KAP needs to understand their norms of negotiation. The partner also acknowledges the issue of the ex-government staff exhibiting *priyayi* and *bapakism* values which are strongly embedded in the SOE. Such an environment requires KAP to determine the appropriate personnel when meeting top level management.

Moreover, during the meeting, KAP, as a service provider, is obliged to show ‘good face’ by introducing the team member as early as possible in the initial engagement with the client.

In dealing with the client, the partner and the manager and the senior in charge, the very first thing they do is to sit down, usually with the Finance Director. And in that meeting they will discuss how the audit should be approached, what would be the things the Finance Director does not wish to see, so the Finance Director may say, “I do not want to see your people after 5pm,... We want to close the office.” Another one we have to consider: "I do not want you to be very messy." You will hear that. So the very first meeting is very important. (Senior Management, Male expatriate)

This illustrates how KAP deals with the initial engagement with the client. For him, it is very important to assign a full team, from partner to a senior in-charge, to have the meeting with the Finance Director. This attitude enables the client to meet face-to-face with the persons who will be around their premises. According to Javanese values, it is appropriate to introduce a new member of a “family” before interaction begins. Seeing each other physically, before doing business, enables both parties to develop trust and long-term relationships, which is important to the Indonesian (Perks & Sanderson, 2000). The following comment from one junior auditor illustrates this issue.

Depending on the company, if I were in SOEs outside Jakarta, they prefer to [first] meet and ask out for lunch. (Associate, Audit, Male)

The power of the client can be a significant obstacle for the auditor, in that it can influence the way an auditor proceeds with his task. If the auditor is unable to initiate a harmonious relationship with the client, it can lead to the client becoming stubborn and obstructive, because in a number of cases, clients sense the existence of auditor in their premises as troublesome. It increases their workload and they will try to avoid engaging in the audit process. This attitude comes mainly from the auditor’s point of view, as one associate expresses the anxiety.



There is one multinational company where the staff were somewhat reluctant to give such data. And we are treated with less respect as auditors. They seem so insolent in meeting us, although it is not us who need them; they need us to audit [their firm]. (Associate, Audit, Male)

This comment reflects the high level of reluctance at lower levels of management, so it means an auditor has to make an effort to develop a personal approach to the client staff. The condition thus forces auditors to develop communication and persuasion skills in order to support audit assignments. This discourse of being ‘client-friendly’ has an important impact in the Indonesian context, where auditors require a full understanding of a client’s attitudes and the ‘way of life’ entrenched in the organisation.

In terms of the audit engagement, auditors may experience barriers in gathering data. One comment shows how a client treats auditor.

But if we don’t *get along* with the client and suddenly we are wanting to get data, they are rather indifferent, especially towards junior auditors: “Who is he?” Another thing is if we are new, or have just met them, they will ignore us. Sometimes one client tries to play around; they deliberately will postpone giving us [the data]. That’s how they think. (Associate, Audit, Male)

### **8.2.2. Discussion**

This section offers an understanding of the characteristics of a ‘client’ in the Indonesian context and, more importantly, how the perspective of being ‘the client’ results in perceptions which are different from the Western point of view. As described in the previous chapter, one can observe that Javanese culture in Indonesian society remains a dominant force, both culturally and politically (Irawanto *et al.*, 2011b). Javanese culture is important where Indonesian history is concerned. After independence in 1945, Indonesian policies were heavily influenced by Sukarno’s Javanese authoritarian attitudes, while Suharto, the second president, was more interested in promoting the dominance of Javanese traditions and culture. The latter regime instituted governmental policies that endorsed the attitude of the Javanese *priyayi*; a high stratum of all levels that was to provide a role model, or guidance, to the lower classes, and also required other classes to show respect (Irawanto *et al.*, 2011a).

This attitude has been at the core of societies during the 32 years of Suharto’s regime, forcing the culture of *hormat* (respect) to higher classes to be endemic in Indonesian society. Bureaucrats and government authorities believe they are superior to other institutions and people and therefore expect to be treated with full respect. Moreover, the value of *bapakism* or

being-as-a-father value promotes a person to be the ‘Master’ in his/her society, which generates the notion of the ‘master-servant’ relationship.

In Chapter 3, the values of Javanese *rukun* and respect showed these values to be strongly embedded in Indonesian society. Due to its history, Indonesian culture, while dominated by Javanese culture, is combined with other cultures across Indonesia. Both norms of *rukun* and respect can be felt when interacting with an Indonesian. In business relations, Javanese norms are deeply embedded in the behaviour of practitioners, either intentionally or not. A manifestation of this, in a business context, is ‘*sungkan*’ or being ashamed or embarrassed. For example, people in a meeting are expected to concur with the opinions of ‘superiors’ and not to present a dissenting voice (Lewis, 2006).

Other behaviours, such as ‘*bapakism*’, occur in the relationship between staff and manager, or between client and the service provider. Both *sungkan* and *bapakism* intersect with each other, where an auditor is likely to appear ‘subservient’ to the client as a manifestation of Javanese ‘respect’. The question is whether or not this interaction occurs in the auditor – client relationship, and to what extent this interaction affects audit professionalism.

The above description illustrates how embedded the value of Javanese *hormat* is in society. KAP, as a professional service firm which focuses on audit and business advisory services, needs to be aware of this when dealing with its clients. As Perks and Sanderson (2000) stated, it is important to consider the personnel in ‘different’ status when two firms are meeting in order to respect age and seniority. In Javanese culture, the protocols on meeting a person need to be considered, based on the age of the person and how ‘high’ the rank of that person is in society. Unlike Western society, the Javanese have rules in terms of meeting other people. Sitorus and Budhwar (2003) confirm this regarding the hierarchical norms manifested in the Indonesian business community.

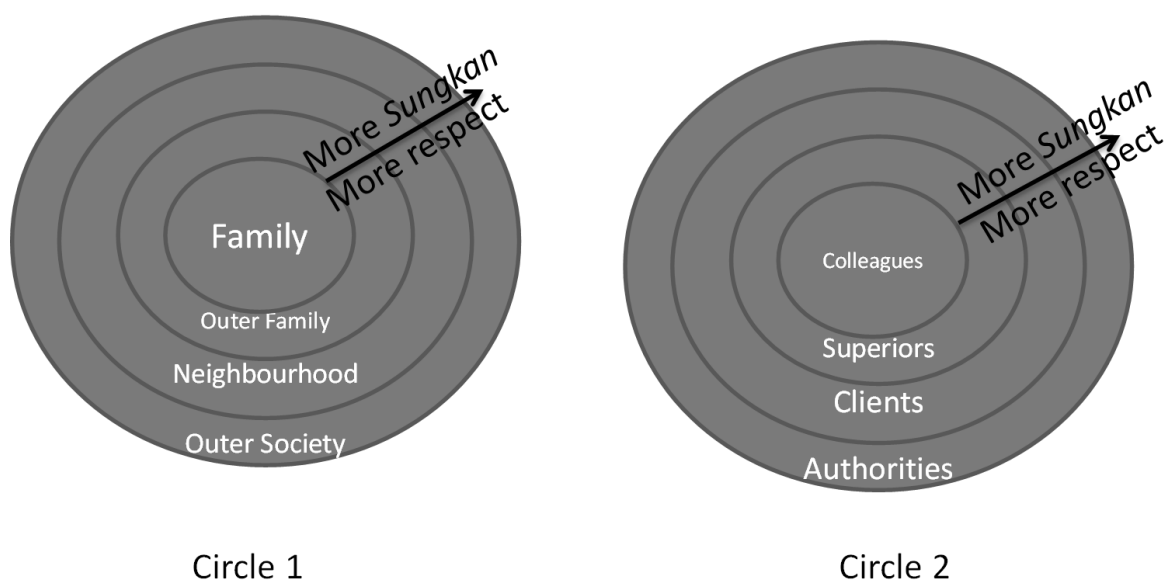
Indonesian business culture is hierarchical. If you are part of a negotiating team or other type of delegation, you introduce the group starting with the most important individuals. The Indonesian participants will enter the room based on the hierarchical position and then take a seat. One must wait standing for this procession until it concludes. The oldest or most competent assumes leadership. Age, seniority or military rank accords status. (Sitorus & Budhwar, 2003, p. 605)

The findings also confirm that most SOEs possess a high level of bureaucracy and that auditors must be able to understand such a ‘culture barrier’. As described in Chapter 3, most SOEs were previously given protection and incentives by the government to be able to compete with

private enterprises. The consequence was that the SOEs became less competitive while appearing to be more important in the Indonesian business community. Auditors, especially the juniors, must be aware that, in order to approach the SOEs, they must appreciate the manifestation of the Javanese *hormat* to all employees at various levels. An expression of ‘knocking the door’ is needed as an introduction to a new client, such as amicable chatting, asking personal questions about family and going out for lunch. Personal relationships are often considered as a common gesture of kindness to interact with the client and to reduce formal and rigid relationships.

Personal interaction can be considered a key point of approach to a client. Anderson-Gough *et al.* (2000) emphasised the importance of appearance, social skills and lifestyle of an auditor as being ‘client-friendly’, which is introduced early in a training session. The fact that communication ability is imperative in the Indonesian context makes this factor as one of the most important skills of auditors. As mentioned in Chapter 3, Figure 1 illustrates the circles of Javanese *sungkan*, which is based on layers of relations. Circle 1 represents the nuclear family from the Javanese perspective, while Circle 2 replicates Circle 1 in an organisational setting. The feeling of *sungkan* is less influential in the innermost circle, constituting the loose formality between the family members or colleagues. The further one goes to the outer layers, the more *sungkan* feeling is implemented, and the more a person is expected to exhibit respect for others. In this case, a client is regarded as the outer layer of colleagues and superiors, and hence the auditor must demonstrate greater *hormat* to this “layer”. Both levels of *sungkan* (ashamed) and *hormat* (respect) are considered as barriers when entering the client’s premises and need to be gradually diminished.

Thus, the auditor needs to bring the client into a more collegial relationship in order to gain better access to information. A greeting and an amicable “chitchat” are some of the requirements to commence any other formal discussion in a meeting. In some cases, asking about family and background is simple chat that creates a harmonious atmosphere. This was confirmed by Irmawan, Hudaib, *et al.* (2013) who describe the high level of collectivism in Indonesian society, which includes a personal relationship between auditor and client.



**Figure 8.1. Comparison of Javanese Respect Values, as in Figure 3.3**

Personal interaction for auditors, however, often jeopardises the level of audit independence and professional judgement. One finding reveals that a client prefers to engage with the same auditor, since the two parties have known each other both professionally and personally. In the past, the long-time relationship between the auditor and the client caused issues of preference and even collusion, as far as the financial report is concerned. Some relationships had lasted more than ten years, which created “exclusive arrangements” and hindered other audit firms in competing for work.

### **8.3. Client Power: ‘I pay you, you serve me’**

#### **8.3.1. Findings**

Another perspective of client behaviour is how a client positions themselves with the auditor. In general, there is a tendency for the audit client to treat the auditor as a consultant, to provide advice for its financial report. The following statements are some auditors’ comments that express the client’s impression of the audit firm. One advisor’s comment expresses the general condition of most local clients:

Some clients have their own financial statements, they’ve prepared...Some asked the auditors to prepare; some wanted to prepare the notes themselves, but they expect the auditors will change it again, so they will just leave it... so different approaches, but still in Indonesia I think the majority of the financial statements are prepared by the

auditors, rather than they prepared themselves and were checked by the auditors (Advisor, Audit, Male)

This comment indicates the lack of understanding of the auditor's role by local firms and consequently they are often seen as a financial consultant rather than an auditor. The advisor may not have the authority to force the client to generate its own financial report because the client does not have adequate resources to do so. Moreover, Indonesia has been implementing the newly adapted IFRS accounting standards only since 2012, and most local firms have little experience in adopting the standards. The following comment from one auditor explains this.

... Because some actually don't understand accounting standards, because some of these new standards just came out from 2009, 2010 or maybe 2005...and the clients have graduated that way back 2005...maybe 1990: they cannot [change]. Either they were not upgraded, or they just rely on the auditor to do the work. (Advisor, Audit, Male Expatriate)

The client's staff often display this attitude when a new auditor is assigned, and thus the auditor must find out how to reduce this barrier. The existence of an auditor in the firm is considered unimportant at the staff level. The power to enforce the needs of an auditable report in a firm is not an important issue as far as the management is concerned. Thus at the staff level, auditors face considerable challenges whenever they are assigned to Indonesian firms, especially SOEs. For the firms, the importance of having an auditable financial report is to satisfy the 'formal requirement' of the stakeholders and for tax purposes. But they put aside how every staff member should concentrate on supporting this process, and more surprisingly, all tasks related to the report preparation are delegated to the auditors. The following comment reflects why such a phenomenon exists in the Indonesian context.

Although a listed company, they often feel, "Hey, this is the auditor's task [to produce the report]; we only support you". So if we ask them to provide the largest receivables and they surely give it, but what we need to do with it, it's the auditor's business; that's what they say.

Q: Did you ever bounce that back? Like, "But this is your responsibility [to produce the report, right?]"

Yes we did, and almost every year we say this. But I think because of their temperament they will say, "Yes, but we've paid you [to do it], right?" (Manager, Audit, Male)

From this conversation, there appears a tendency to treat auditors as 'consultants', who are paid for doing whatever is needed for their clients. The auditor felt that the client had more control or domination and left no option for the auditor to compromise with the client's demand. The monetary aspect, such as 'big fees', is used as a client's bargaining power to ask the auditors to help producing financial reports. Such behaviour is common in Indonesian business, and

was confirmed by the manager. Despite the fact that an auditor's role is to audit and not to become its consultant, the client expects them to help. To some extent, the client argued that they are the ones who pay the auditor to do things they ask. The same illustration happens not only in audit division but also in other divisions.

There are expected ways to interact with clients with limited resources in accounting and are unfamiliar with audit processes. Independence is one factor that must be shown to the client, and auditors are expected to help each other and work together in resolving ethical matters. One comment expresses this.

"Hello, I [the client] have a case, what do you think, auditor? What should I do?" This question is frequently asked we are in the field. This [question] should be asked of the consultant, so I doubt my independence. Usually if I do not want to answer, the question will be c.c.'ed in the email to the partner. He [the client] would say, "Your manager does not want to answer, please help answering my question for my company ...." Sometimes the partner answers, sometimes not. He told me that it will disturb the independence of our firm. (Manager, Audit, Male)

Support from staff to partners who work well together, and issues surrounding ethical decisions, can be identified in the above comment. Communication plays an important role to ensure that professionalism is maintained. Again, as an international firm, the pressure to comply with international standards is relatively high but this requires auditors to resolve tensions with values of their own cultural identities. Another dilemma could arise, where local auditors are aware that the rigidity of a code of ethics is not fully implemented in practice. The following example supports this.

This puts me in a wrong position: am I an auditor or a financial consultant? If I am making the reports, [I can't], because it is clearly stated that the 'financial report is the management's responsibility and we only decide the opinion.' But in reality, I am the one who made it. Although the management supports the numbers, the model, the disclosures, the auditor had to do it. (Manager, Audit, Male)

Examples like this are often described by an auditor when dealing with clients who have less knowledge of both the accounting and audit. The manager had to risk his professional commitment to execute what may appear to be prohibited in the code, while attempting to explain his circumstances as an auditor to the client rather than a consultant. Hence, the requirement to comply with the code of ethics is not fully implemented in practice. The Manager's expression also reveals a sincere desire to provide the appropriate assistance.

Because clients nowadays are smarter, they don't want generic [services]. They ask for better compliance. "Why do we have to pay extra money when we can do it by

ourselves? It is your job to integrate [your consulting and audit services] (Director, Financial Advisory Services, Female)

From the conversations, there is a misconception about audit functions and responsibility and the clients tend to treat all services as consulting services. The generic argument to this phenomenon is that every time a client pays an auditor, 'the auditor has to do what the client asks.' This also reflects the notion of the master-servant relationship in a Javanese context. The amount of money spent on auditors has enabled the client to pressure the auditor to perform such tasks and treat them as a consultant. The expression of the monetary issue is also derived from the whole audit fee structure being relatively different between, for example, the US and Indonesia. One from senior management comments on this:

I have worked in the US, [and] the auditor is [considered] *Tuhan* [God]. Because there is incentive for them. If you need documents, in Indonesia you have to look for them by yourself. In the US, you have to tell the client and the client will look [for it], because in Indonesia the audit fee is fixed. Whatever happens, if you delay or if you are quick, I will pay you this amount of money. In the US, you work by the hour. If you ask me to assess on my own, I will take longer. So they stop the client; they do not want to be scolded also by their boss, "Hey, why is the audit delayed? It's because of you." So, it's very nice to be an auditor in US. (Senior Management, Male Expatriate)

### **8.3.2. Discussion**

These findings show that an auditor's client possesses a dominant role in the audit work. Moreover, it is suggested that the client has greater 'control' and 'power' over their auditor. Anderson-Gough *et al.* (2000) argued that a client can be considered to effect a repressive trajectory; auditors may be forced to moderate their identity and professionalism in relation to the client's demands. They also argue to some extent that the Foucauldian concept of power explains the power of clients to influence the 'gives and enables' of the auditors. In this case, Indonesian clients have the opportunity to exercise some such advantages as 'the client' to gain services from their auditors. 'Power' in this case does not merely relate to the Master/servant relationship but can also be treated as ignorance of current accounting developments. An argument by Anderson-Gough *et al.* (2000) summarised the importance of client influences on audit professionalism.

The dominance of the client in accounts of events within the firms, and more importantly within notions of professional identity, can be seen as a significant factor in shaping of professionalism such that not only judgements about work task and appearance are affected, but also fundamental notions of identity and priorities in life as a whole. (Anderson-Gough *et al.*, 2000, p. 1164)

As some auditors expressed, the clients' alibi is to provide as little information as possible in producing a reliable financial report. It is thus the auditor's responsibility to educate, while presenting their financial reports, based on the current IFRS-based standard. The argument is confirmed by Perera and Baydoun (2007) where many business practitioners are clouded by ambiguity and uncertainty of the accounting convergence, due to lack of supporting services in the field. The Big-4 eventually have to provide 'extra' services to clients by establishing an IFRS centre to accommodate such deficiency. In turn, the dualism of services can result a conflict of interest within the accounting firm.

## **8.4. Client behaviour and ethnic stereotypes**

### ***8.4.1. Findings***

Ethnic stereotyping is another factor that an Indonesian auditor would be expected to consider when meeting clients. There is a tendency that the ethnic stereotype issue remains although that consciousness has gradually reduced. As described in Chapter 6, enquiring about ethnicity to interviewees may require a personal approach, since it is considered a sensitive matter. However during the interviews, no respondent hesitated to describe their own ethnicity or to talk about the characters associated with particular ethnic groups. The three main ethnic groups are the Javanese, the Batak and the Indo-Chinese, which represent distinctive characteristics within KAP. All groups possess such characters, and it generates a diversity of cultures and leads to the construct of unique organisational norms and values alongside the global influence within KAP. This section illustrates the manner in which ethnic stereotypes surface in client perspectives.

In most Anglo-American literature, the client is perceived as a unified character of an entity which requires a professional service from one professional service firm. Although some studies explicate the variety of clients' behaviour relative to audit performance, there is an issue as to how ethnic characters can influence audit behaviour. This is particularly related to the manifestation of audit professionalism and identity. One example of two ethnic stereotypes can be found below.

In my opinion, the *pribumi* staff are better in getting the data rather than the ethnic Chinese. There was one client group and I had difficulties in accessing the data. I'm not sure but it may have been because of the Taiwanese. In general, Taiwanese are reluctant, but all depends on the firm and the personnel (Associate, Audit, Male)



Here, the associate was asked whether there is a difference in ethnic character, between the *pribumi* and the Indo-Chinese. He expressed that the *pribumi* staff have more ease in accessing data, compared with the Indo-Chinese staff. This may indicate that the Indo-Chinese staff display more prudent behaviour than the *pribumi*. Although this seems to be debatable and too generalised, the associate's expression represents a common characteristic of the Indo-Chinese. This is confirmed by his subsequent comment about the situation of one company and its management. The comment reflects that ethnic stereotype is incorporated in the perception of client behaviour.

Such a generality may seem problematic when describing one ethnic group but auditors are well-prepared when meeting a firm which exhibits strong ethnic group preferences. It is suggested that *pribumi* become friendly when developing a close relationship, while the Indo-Chinese characteristic may suggest the firm has a high level of prudential and circumspect behaviours. In order to understand these characteristics, an auditor must be aware that a client-specific approach is essential, and that it requires some time and effort to understand the client's environment before he/she performs the audit tasks.

In other circumstances, the *pribumi* may be referred to as having characteristics similar to the Javanese personality. This stereotype has a strong inclination to respect and *sungkan*, and sometimes does not speak expressively to others.

Yes, like the local firm, if you ask for any details or data, they tend to give you a hard time. They will say "ok, ok, ok" but never do it. (Associate, Audit, Male)

The associate expressed his concern about a client who was difficult when trying to access its financial information. The agreement expression of 'ok' does not merely mean an agreement to comply with any instruction from the auditor. This can be interpreted as a sign to 'respect' the auditor's request without any obligation to fulfil it. This behaviour of the client is considered common in the Indonesian society, forcing the auditor to make a request several times in order to ensure the request is fulfilled.

Another Indo-Chinese stereotype is the character of obduracy. In the Batak culture, this behaviour has similarities to the Indo-Chinese.

I happened to work with the Chinese and their characteristics are more less the same as the Batak. If they prefer A, then it's A alright; B is B and C is C. Not just saying yes but a different answer at the back... But if they have to meet [government] agencies like BAPEPPAM, the Indo-Chinese will use Javanese in principal but they won't leave their Chineseness. (Senior auditor, Audit, Male)

In general terms, a similar stereotyping of the Batak and the Indo-Chinese can be found in that comment. The behaviour of saying ‘yes’ from both Batak and the Indo-Chinese, contradicts the previous expression from the Javanese counterpart. The former stereotypes are blunter than the latter (in speech), which gives rise to the idea that in order to understand the Javanese stereotype, a person needs to scrutinise the ‘hidden’ meanings. Thus an auditor must master the ability to understand the client’s expression and whether they are giving positive or negative responses.

The family business also offers a specific environment which an auditor needs to understand. The close relation of kin groups in a firm forces auditors to maintain a high level of professionalism, especially when producing audit judgements. Nonetheless, the characteristic of scepticism and circumspection, which are embedded strongly in this firm, will create a barrier to accessing data. One manager commented that to show this approach is imperative for a successful audit engagement.

And then if you are in the Chinese family business where the shareholder is the grandfather, the director is the in-law and every level is one big family, you have no choice but to follow their way of work, such as appearance. And then there will be bias of professionalism amongst the family, so we need to follow how they mingle, not too formal and be as friendly as possible. Besides, all the managers are relatives, right? (Manager, Audit, Male)

In a Chinese family business, an auditor would expect to have a number of relatives holding important positions in the company. Some of these companies existed before Indonesian independence and have been inherited through several generations. As such, systems and procedures are often neglected by the management and rely on family relations. An auditor must understand this situation, where formality may not be the case in audit procedures.

So we only follow how the daily workflow looks like and compare it with their SOP [standard operating procedures]. Honestly, the SOP is fine but the application is not that good; they are more *kekeluargaan* [in running the firm]. I notice this because I am close to their accounting manager, get to know him, lunch together, so I know precisely how they work (Manager, Audit, Male)

In an Indo-Chinese family business, the audit manager has to fully understand the characteristics of the family business and needs to behave as if he is one of its employees. The act of “blending” in is important in order to get the required information from the staff. He approaches the accounting manager at a personal level so that he is able to retrieve the full information and the firm’s operating procedures. Maintaining these communications enables an auditor to gain confidence in his/her assurance exercise. *Kekeluargaan* emerges as soon as

the closeness relationship among staff is detected, which evidently brings a personal approach. The manager's approach to take the staff for lunch is one way to gain access to a family business.

Another type of client, such as an SOE, comprises staff who are predominantly of a bureaucratic character; although in recent times this phenomenon has been diminishing. A bureaucrat, at a very high level, expects behaviours such as Javanese 'respect' and '*bapakism*'. This type of behaviour requires an accounting firm to appreciate their 'position' relative to the bureaucrat, being higher than the 'servant'. A common way to overcome this issue is to go 'knocking at the door' to the client. As one manager expresses it:

If it is an SOE, we know that the Javanese culture is so viscous! We can't get a direct statement if we request any data, instead we need to perform '*kulo nuwun*' (excuse me) first, as well as an easy chattering... (Manager, Audit, Female)

Thus, in order to overcome this problem, a common tradition, especially for SOEs is to demonstrate "amicable" actions, such as entertainment and meal invitations before and during the audit process.

If I were posted to an SOE in Java, they prefer to meet and they will ask us for lunch or dinner. But the important thing is to follow up with them all the time. (Senior auditor, Audit, Male)

In this environment, the term 'respect' or *sungkan* can be connected to the feeling of embarrassment that constrains one's expression of personality in deference to the other person (Geertz, 1961, p. 152). The feeling of *sungkan* is based on a condition where a person, usually a subordinate, feels that it is unwise to ask questions, or even criticise, his/her superior in any circumstances he/she may experience in a firm.

It is because of their cultural factors, not from the organisational culture. If I look into their structure, there is a procedure to give suggestion or critiques to the management, but they never use this procedure. They are *sungkan* to criticise their boss. (Manager, Audit, Male)

As Efferin & Hopper (2007) explained, one of pillars of Javanese culture is the dichotomy of *alus* and *kasar*. *Alus*, or being 'softened', defines the act of being good mannered, appropriate and according to etiquette, which also means pure, refined, polite, exquisite, ethereal, subtle, civilised, and smooth (p.228). The application of '*alus*' is determined in the relationship between an accounting firm and its client.

That's what I have experienced, because of the Javanese culture. As a matter of fact, this guy is actually friendly and nice, but we don't know what is in his mind. As for

communication issue, before we want to express what we want, we need to build some good interactions with them. Don't be too striking... (Manager, Audit, Female)

Moreover, the process of "knowing each other" is customary when dealing with SOEs. The amicable action is considered a must, especially for new auditors who have not been assigned to a particular client, in order to accelerate the audit process.

It will be very difficult in SOEs, with no support from the staff if you cannot get their attention. But if you keep on greeting humbly, "How are you? How's life?" and the next day you will be asking, "If I request this data, would you be able to provide it?" (Manager, Audit, Female)

#### **8.4.2. Discussion**

These findings suggest that there is evidence of ethnic stereotypes in mapping client behaviours in the audit industry. Apart from the hegemony of the Javanese norms and values, other ethnic characteristics of the Indo-Chinese and the Batak also take place in the setting of cultural experience. Several studies acknowledge the differences in values and characteristics of these ethnic groups but little is known whether these characteristics are reflected in business practice in Indonesia. The terminology of the 'Indonesian' is commonly used to represent the Indonesian business culture when comparing Western practice. Thus, this study attempts to understand the variety of ethnic contributions that make up Indonesian culture. In this sense, auditors are given a chance to express their feelings on client behaviour, whether the ethnic stereotypes exist in their audit assignments.

The first finding was related to *pribumi* and Indo-Chinese staff in client companies. The auditors expressed the differences between the two ethnic groups and found that Indo-Chinese staff are more prudent in handling confidential information than their *pribumi* counterpart. This finding is supported by Efferin and Hopper (2007) where one of the Indo-Chinese characters is to guard their company's interest from public exposure. This can be overcome by a high level of trust and confidence between the company and the auditor. Efferin and Hopper (2007) also described that long-term friendship and consultancy relationships were the key point to access a Chinese-owned company. The value of 'trust' is considered imperative to the Chinese, who maintain strong relationships and respect to family, friends and acquaintances. The value of *Guānxi* is meant to protect and maintain trust in the network, which provides the notion that this ethnic group prefers to do business with fellow Chinese or someone who has been trusted for some time (Redding, 1990). Hence, the 'trustworthiness' and 'networking' is commonly attached to the Indo-Chinese character.

On the other hand, the *pribumi* possesses different characteristics to the Indo-Chinese. The *pribumi*, in many contexts, can be interpreted as the ‘whole Indonesian’, excluding Indo-Chinese and other overseas descendants (Soebagjo, 2008; Turner & Allen, 2007). This can be misguided since *pribumi* cannot represent the overall characteristics of all ethnic groups in Indonesia. The *pribumi* jargon was raised during the Dutch colonial period, in order to distinguish the European Dutch, the Chinese tradesmen, and indigenous *pribumi* (Suryadinata, 2001; Turner & Allen, 2007). Hence, serving *pribumi* to disentangle ethnic characteristics may not be appropriate. The second comment contains a ‘hidden’ interpretation expressed by an auditor when dealing with some local firms. This behaviour is one manifestation derived from the combination of Javanese ‘respect’ and *rukun*. There is a consensus that a person is not ‘allowed’ to speak directly, and particularly a negative response, to others: this is considered impolite. The finding confirms that Javanese norms are embedded in what is called the ‘local firm’. The connotation of a ‘local firm’ and *pribumi* is thus closely related to the manifestation of Javanese norms.

The above arguments consequently provide further explanation of a Chinese Family Business and a State-Owned Enterprise (SOE) as representing a marked dichotomy in organisational characteristics. Based on the findings, there is a feeling that auditors generate a pool of client characteristics: the Chinese Family Business and the SOE. The Chinese Family Business is associated to the Chinese values of *guānxi* and Confucianism, while the SOE has a strong sense of Javanese *rukun* and respect values. As described in Chapter 3, the Chinese Family Business and SOE have relatively different characteristics in terms of management style and organisational culture. An auditor must be aware of different sets of client, especially when establishing good communications. Again, a personal approach is generally needed as a polite ‘sign’ to enter the client’s premises.

These findings are supported by Anderson-Gough *et al.* (2000) where the client is a central topic in audit training. Such training reflects in an auditor’s professional identity: it embeds through discourse attitudes to management control, friends, family, and the profit motive. Among particular friends and family discourse, Indonesian auditors must know how to deal with client characteristics in order to support their audit assignment. Moreover, in a high level of collectivism and widespread nepotism, an auditor must be aware of his/her audit independence and integrity (Irmawan, Hudaib, *et al.*, 2013).

There is a concern, however, that the above discourse may create a risk to audit professionalism. As Gaffikin and Lindawati (2012) mentioned, the danger of having a CFB (as they refer to Indo-Chinese family-owned companies) and the SOE as clients is that there is a chance for the auditors violating the code of ethics. There are proxies to indicate that the code of ethics is violated when providing services to either the Chinese Family Businesses or the SOEs (Gaffikin & Lindawati, 2012, p. 10).

- 1) Have the auditors been truly independent in appearance or independent in performance?
- 2) Have the auditors implemented their responsibilities in a professional manner, particularly the external responsibilities?
- 3) Have auditors increased the quality of the audit or are they going to improve knowledge and ability as part of the professional workers in their area?
- 4) Have the auditors provided other services under other principles of the ethical codes?
- 5) Have the auditors in the government institution been independent in appearance and performance during the sole time regulation of the maximum of 2 years of auditing?
- 6) Have the auditors implemented the fifth principle, scope and services, properly?

These proxies are some of the factors auditors must consider when performing their task. In addition, Gaffikin and Lindawati (2012) indicate that most violations occur when dealing with clients with little understanding of the standard; the failure of auditors to grasp the purpose of the ethical code standards; wide-spread collusion, cronyism, and nepotism; and the possibility that the standard cannot be implemented in the Indonesian setting. Given that auditors often face ambiguity between a personal approach and their professionalism, there is a notion that toleration and compromise exist in this matter. Manifestations such as dualism of personality and decoupling are likely to occur with Indonesian auditors, assuming that the Javanese values of 'hidden' expression influence the auditor's assignments.

## **8.5. Conclusion**

This section offers perspectives on client behaviour which can influence audit independence and integrity. This includes a diversity of behaviours: hierarchical status, the power to control, ethnicity stereotyping, the *guānxì* of Chinese Family Businesses and Javanese hegemony in SOEs. Providing such evidence, the study suggests that Indonesian clients strongly influence auditors. There is a need to scrutinise the extent to which a client may jeopardise the

professional way of performing an audit. As far as the audit firm is concerned, there is a tension derived both from an auditor's professional capability and the personal approach.

The tension between professional and personal approaches within an auditor's personality is believed to be the 'logic' behind what seems to be the discomfort of the Indonesian auditor. Concerns about ethnic stereotypes, client characteristics and the misappropriation of power are considered as symbolic materials and practices in the audit institution. This logic can influence audit judgements and communication skills. The other factor revealed is the patrilineal and feudal concepts of the Master/Servant relationship, adopted from Javanese values and remains valid in Indonesian society. Many of the interviewees illustrated the dominance and reluctance of clients to cooperate with auditors, which forces auditors to operate in an environment that requires a degree of compromise. One possible consequence is reflected in client management and communication ability, the level of independence and an auditor's attitude towards professionalism.

## **Chapter 9**

### **Discussion and Synthesis**



## 9.1. Introduction

This chapter will synthesise and comprehensively discuss the three Chapter findings presented in Chapters six, seven and eight. Each finding offers a robust understanding of a unique characteristic of Indonesian cultures and norms; and these eventually develop a degree of cultural understanding that may not have been uncovered in Western scholarship to date. The literature review, presented in Chapters two and three, assisted the researcher to develop the foundation of the existing literature on accounting professionalism and the Indonesian background of politics and socio-economy, while Chapter four illustrates the theoretical background that will be employed to incorporate and synthesise the findings.

This research has employed a qualitative approach in order to generate an in-depth analysis of KAP by conducting interviews with staff and making observations. The data were collected from KAP and was exposed to cultural diversity from both Western and Indonesian cultures and norms. The scope of study focussed on KAP's audit division, with some interviewees from other divisions, employing an “actor-centred” approach. The activity involved observing and documenting their backgrounds as well as focusing on professional developments in the organisation and culture. The contribution is expected to bridge the gap between existing studies of the GPN and other Western perceptions of international accounting firms with Indonesian cultural values.

The findings suggest three main themes that contribute to the factors influencing audit professionalism. They are: (1) Cultural influences on accounting professionalism, (2) Indonesia's Accounting Development and Professionalisation issues, and (3) Client Behaviours. Each main theme represents norms and values that were revealed during the auditors' interview sessions, where very careful scrutiny was undertaken for further analysis. This section discusses these themes in conjunction with relevant literature provided in Chapters Two (Professionalisation in Developing Countries) and Three (Political, Economy & Professionalisation in Indonesia). The role of Institutional logics was discussed in Chapter Four and identified such perceptions derived from these themes which helped the researcher to understand the holistic view of the cultural mix. The summary of findings is organised into three parts: Part One contains the application of Institutional Logics to this research. The three chapter findings in this study will be described in brief, while the interpretation of *kekeluargaan* within the Western institutions will be discussed. Part two attempts to scrutinise further on the development of the Indonesian institutions. It is expected that this research proposes modified

institutions from the Western institutions. Part three illustrates the implication of the Indonesian Institutions to audit professionalism. The six dimensions of audit professionalism by Kerr *et al.* (1977) will be described in conjunction with the proposed Indonesian institutions.

## **9.2. Part One: The Application of Institutional Logics in the Findings**

Institutional logic is used to identify practices and experiences of participants, and attempts to develop a theoretical framework that can be applied in multiple settings. A mixture of such practices can result in either a conflict or a consensus situation, which eventually generates a combination of logic within institutions. One's perception is influenced by both macro- and micro-levels of the institutional field and the core principle used to identify the logic is by identifying activities and interests observed in individuals and/or the organisation. This is manifested as an embedded agency relationship and/or social action (Thornton *et al.*, 2012). The outcome of institutional logic is to analyse factors that drive institutional change, originating in the defined logics across organisational forms and institutional fields.

This section analyses the proposed institutions associated with KAP. The three themes described in Chapters Six, Seven, and Eight are the findings relating to this Big-4 firm. Each theme has central topics that are explained and related to existing studies in order to provide a clear explanation of the Indonesian environment. This section also questions whether the central topics contribute to the micro-foundations of institutional logics. In particular, the researcher offers an analysis of cultural embeddedness; socially embedded constructions of culture, the individual as party to such social construction and widespread symbolic structures.

Chapter Six discussed Indonesian cultural influences in accounting. Based on the analysis, there are five central topics that arise: the founder's values to KAP, the values of kekeluargaan, the values of tolerance, professional opinion and ethnic stereotyping. It is important to appreciate the importance of the "Founder's values" when describing Indonesian culture. It is considered compulsory for all Indonesians to respect their elders, regardless of his/her structural position in a firm. As Javanese norms dominate Indonesian norms, the values of *bapakism* play out in authoritarianism and leadership, both moral and benevolent, which are also aligned with Chinese values of paternalistic leadership (Irawanto *et al.*, 2011b). There is a strong indication that being of Indo-Chinese descent, KAP's founding father has embedded in the firm the *Confucianism* values of collectivism, the family and interpersonal values. Both Javanese and Chinese cultures provide similar values of respecting older people and their

leaders, which is manifested by these values being embedded in KAP's organisational cultural norms.

Chapter Seven focused on the Indonesian accounting profession and on government regulations. The findings suggest that there is a strong notion of a lack of regulatory coordination and less enforcement of regulation for Indonesian auditors. There seems to have been few resources allocated to support such enforcement from the government, leaving "unethical" auditors to practice within an audit function. On the other side of the spectrum, auditors often face dilemmas regarding identifying and following the regulations. This is because they are the ones who are required to enforce audit procedures with their clients. As such, while the Big-4 firm partners appear to sufficiently comprehend the 'Indonesian' situation, they still require their auditors to follow the international code of ethics; but the small and medium auditors are less challenged by such problems, as they do not take it so much 'to heart'. Other findings relate to IFRS adoption, the readiness of auditors to perform their tasks, and ethical judgements. Since the IFRS adoption process began, there have been debates about some accounting standards, which require auditors to gain expertise in making judgement calls and in practising independence.

Chapter Eight described findings related to client behaviour. There are a number of issues in regard to auditors' perceptions of their clients; one relates to a client's position and power to influence their auditors. As mentioned, the Javanese value of *hormat* or respect creates a high level of power distance between auditor and client, and therefore the auditor feels lower or subservient to the client. The ability to satisfy the Javanese ethical values of being 'in the family', however, may increase trust and lower such barriers. Ethnic preference is also revealed in that some Chinese family businesses prefer to have an Indo-Chinese auditor, while in other cases, the auditor must be conversant with the Javanese norms in order to gain the required access to state-owned companies. As such, Indonesian auditors are obliged to have 'extra' communication skills and understanding of the expectations by local clients.

### ***9.2.1. 'Western' Institutional Logics***

The key element in applying successful institutional logics as a framework is that one must understand the societal contexts which represent and reproduce different sets of behaviours and relationships. The earlier investigations (Friedland and Alford (1991); and Thornton *et al.* (2005)) and then Thornton *et al.* (2012) showed Western societies to comprise of seven societal bases: the market, the corporation, the professions, the family, religion (Christianity), the state

and the community. Further scrutiny is needed to ascertain whether such societal categories may be applied to the Indonesian context. One important aspect is that each setting demonstrates cultural symbols and practices which are part of society and potentially influence a range of institutions (Thornton *et al.*, 2012). The outcome of this would be expected to elaborate on the multiple sources which result in recognisable Indonesian institutional fields.

Revisiting the theoretical framework in Chapter Four, Table 9.1 illustrates such Western institutional orders, derived from Thornton *et al.* (2012). As included in Chapter Four, Table 9.1 lists institutional orders, categories and the beliefs and norms associated with the matrices.

Y-Axis	X-Axis: Institutional orders						
Categories	Family 1	Community 2	Religion 3	State 4	Market 5	Profession 6	Corporation 7
Root Metaphor 1	Family as firm	Common boundary	Temple as bank	State as redistribution mechanism	Transaction	Profession as relational network	Corporation as hierarchy
Sources of Legitimacy 2	Unconditional loyalty	Unity of will Belief in trust & Reciprocity	Importance of faith & sacredness in economy & society	Democratic participation	Share price	Personal expertise	Market position of firm
Sources of Authority 3	Patriarchal domination	Commitment to community values & ideology	Priesthood charisma	Bureaucratic domination	Shareholder activism	Professional association	Board of directors Top management
Sources of Identity 4	Family reputation	Emotional connection - Ego-satisfaction & reputation	Association with deities	Social & Economy class	Faceless	Association with quality of craft - Personal reputation	Bureaucratic roles
Basis of Norms 5	Membership in household	Group membership	Membership in congregation	Citizenship in nation	Self-interest	Membership in guild & association	Employment in firm
Basis of Attention 6	Status in household	Personal investment in group	Relation to supernatural	Status of interest group	Status in market	Status in profession	Status in hierarchy
Basis of Strategy 7	Increase family honor	Increase status & honor of members & Practices	Increase religious symbolism of natural events	Increase community good	Increase proficiency profit	Increase personal reputation	Increase size & diversification of firm
Informal Control Mechanism 8	Family politics	Visibility of actions	Worship of calling	Backroom politics	Industry analysis	Celebrity professionals	Organisation culture
Economic system 9	Family capitalism	Cooperative capitalism	Occidental capitalism	Welfare capitalism	Market capitalism	Personal capitalism	Managerial capitalism

**Table 9.1. Institutional orders and categories**

Source: Thornton *et al.* (2012)

Evidence from KAP shows there are different characteristics between the Western and the Indonesian norms. Numerous studies have investigated the different cultural backgrounds of Indonesians, especially those in business environments. The key to success in implementing the theoretical framework is to apply an appropriate typology to a specific organisation, instead of classifying an organisation based simply on a set of rules (Doty & Glick, 1994). Hence, this study has attempted to identify practices that constitute relevant institutions in KAP itself.

### ***9.2.2. Interpreting Indonesian kekeluargaan within three Western institutions***

The following section offers an argument of how institutions may be identified in order to reflect those of an Indonesian accounting firm. The objective in this study is to discover the

influences of norms and values from both the GPN and Indonesian cultures to audit professionalism in an accounting firm. Unlike other studies that investigate institutional change with two institutions, for example, fiduciary and corporate logics, this study found that there are more than two institutions in the field. Based on Table 9.1, the material symbols and practices originate from Western social norms, which may not reflect Indonesian institutional fields. The findings in Chapters Six, Seven and Eight enabled the researcher to identify practices that represent Indonesian institutional fields. Further scrutiny found that there are three institutions that need to be more thoroughly investigated in order to reflect Indonesian institutions.

#### 9.2.2.1. Family as an Institution

The family as an institution represents practices that constitute norms and values of a “family”. A traditional family business is likely to manifest such practices deriving from or reflected in familial relationships. The metaphor of “family” for a firm is commonly used jargon and the firm, as “family”, is expected to demonstrate reciprocal and unconditional loyalty to each other as “family members” (Friedland & Alford, 1991). The source of authority derives from a dominant, patriarchal society and family reputation is held strong as part of identity. The basic norm of a ‘family’ is to nurture membership in a household or firm.

These aspects represent material symbols and practices of a nuclear family. The practices are aligned with Indonesia’s *kekeluargaan* which derives from the Javanese family norm. As described in Chapters Three and Eight, family norms are structurally defined; the nuclear family has the lesser structural attitude of *hormat* or respect, and the attitude towards outer layers is to exhibit greater *hormat* and *sungkan* (shame). The other Javanese norm of *rukun* or harmony is an important factor as the basis of this norm is to ensure harmonious relationships and avoid disappointment and conflict among family members. Another practice that reflects *rukun* is being tolerant to others.

In this study, all the elements explained above were found in KAP. Many interviewees expressed *kekeluargaan* as one of the themes that were mostly discussed. The element of *kekeluargaan* is illustrated in Chapter Six, where the concept of ‘family’ is transformed into a wider perspective. Recapping Chapter Six, the following list illustrates elements embedded in the *kekeluargaan* value that were expressed by KAP staff:

- Respect elders

The findings in Chapter six concur this element, shown from the number of comments from KAP staff expressing their respect to the founder of the firm.

- Harmonious and Comfortable relationships; Treatment as family with empathy and tolerance

These elements were shown in numerous comments from KAP staff in relation to giving permission of leave informally, and tolerance to client's behaviours.

- Soft approach between supervisor and subordinate with less unhealthy competition with friends.

Several comments from KAP staff reflected on a personal approach from a manager to staff when giving informal instructions or advice about his/her performance.

- Personal relationship by means of an amicable chat

This element was mostly found in the audit field, where an auditor must perform the 'ritual' of an amicable chat before proceeding with audit work for a client.

- Flexible hours and work, concerned with family prioritising or bringing family matters to office

The element relates to family concerns, for example when a family member is not well, a staff member can leave the office to offer care.

The findings suggest that the staff expressed various ways to define *kekeluargaan* without any consensus in describing it. The above descriptions can be inferred as a manifestation of symbolic systems and cultural practices. In order to become such an institutions, these practices require referents that may be observable in a social-related context (Friedland & Alford, 1991). Providing these criteria are met, the practices of *kekeluargaan* can be implemented and institutionalised into KAP. As a generalisation, unlike from a Western perspective, Indonesians maintain a consensus of inner tranquillity, harmony and stability, acceptance and the subordination of the individual to society and the country (Sitorus & Budhwar, 2003). These elements can be merged to provide the foundations of *kekeluargaan* values, both in the nation and in institutional fields. The dominant influence of the Javanese norm, *kekeluargaan*, including business behaviour, appears to be the strongest value internalised by every Indonesian.

The values of strong patriarchal and hierarchy structure found in Indonesia also perpetuate the power distance between all levels in the structure of society. These values are also found in the KAP clients, especially when dealing with SOEs and governmental agencies. Such hierarchical

social structures can be found throughout Javanese society where three strata classes from the lowest to the highest: *abangan*, *santri*, and *priyayi*, have formed the basis of the present structure (Geertz, 1961; Irawanto *et al.*, 2011a; Magnis-Suseno, 1997). The last, *priyayi*, is perceived as the highest stratum that all Javanese people must respect. Further findings suggest that the application of such norms in the business community occur when meeting clients. A combination of business attitudes, respect to others and personal relationships are some of the expected behaviours when dealing with Indonesian clients.

As such, the values of “hierarchical patrician,” “respect” and “building personal relationships” underpin the business environment. In the Indonesian context, institutional orders may have a very different concept than those from a Western perspective. Initially, the order of “family concept” resonates with the Indonesian norm of *keluarga* (family), but that concept also has a broader sense. According to the findings, *kekeluargaan* not only includes the concept of “family” in the entity but also tolerance, sympathy and commitment to the insider community, as well as respect to the elders. By looking at the existing inter-institutional system ideal types shown in Table 9.1, there appears to be a spread of cultural symbols and practices that portray *kekeluargaan* values in three of the institutional orders. For example, *kekeluargaan* values are perceived as the root metaphor of a firm; as a source of authority, those values are represented by three institutional orders; Family, Community and Religion.

#### 9.2.2.2. *Community as an Institution*

Community as an institution is bound to the common interest, has similar goals and ideas and “bows” to a particular constitution. Based on Table 9.1, community is legitimized by trust and reciprocity amongst its members, while being committed to designated values and ideology. In terms of identity source, a community is formed by emotional connections and the members’ consensus of norms.

The definition of community by Thornton *et al.* (2012) is universal, and this study focuses on identifying the equivalent institutions in KAP. By employing the concept of an institution (norm or belief), the cultural practices that represent community can be identified in the findings of Chapter Six. Nationalism, which was commented on by KAP’s founding partner, is a factor that shows commitment and pride in being Indonesian. The ideology of *Pancasila* unifies the various ethnic groups, religion and the archipelago and is internalised in every Indonesian. Moreover, the emotional connection, as a source of identity, is manifested as tolerance and empathy among KAP staff. Such cultural practices are considered to be the

manifestation of *kekeluargaan* which bonds members to voluntarily commit to the KAP ‘community’.

### 9.2.2.3. Religion as an Institution

This institution represents religion as a religious practice manifested through prayer and other ritual behaviours in a place of worship (Friedland & Alford, 1991). Based on the findings in this study, there was no correlation between professionalism and religious issues. The finding suggests that religious doctrine has little influence in audit professionalism, or specifically addressing a particular religion, such as an Islamic perspective. Nonetheless, KAP accepts and supports all religious practices, such as by providing a Muslim prayer room (*mushala*) in the office, as shown in Chapter Six. This illustrates that the firm has accepted religious diversity in order to provide a comfortable workplace for KAP staff.

One supporting category, however, is relevant to “priesthood charisma”. The role of KAP’s founder may be similar to that of priesthood charisma. Chapter Six found that the founder remains a charismatic person although he has retired. His charisma and the attitude of respecting him as ‘the elder’, illustrate that Javanese *bapakism* and *hormat* are norms manifested in KAP. Respecting the founder’s values is also inspired by the founder’s charisma and attitudes to his subordinates, and is placed within the “Religion” institutional order. Hence, *kekeluargaan*, which underpins many cultural practices, may possess an additional influence for institutional orders in Indonesian society.

Categories	Institutional orders		
	Family	Community	Religion
Root Metaphor	<b>Family as firm – <i>Kekeluargaan</i> as firm<sup>21</sup></b>	Common boundary	Temple as a central physical location
Sources of Legitimacy	<b>Unconditional loyalty</b>	<b>Unity of will Belief in trust &amp; Reciprocity</b>	Importance of faith & sacredness in economy & society
Sources of Authority	<b>Patriarchal domination - Bapakism</b>	<b>Commitment to community values &amp; ideology - Nationalism, Kekeluargaan, Respect to Elders</b>	<b>Priesthood charisma – equal to Founder’s Values</b>

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<sup>21</sup> Fonts in bold represent the extended definition of *kekeluargaan*



Sources of Identity	<b>Family reputation - Building personal relationship to clients</b>	<b>Emotional connection - Ego-satisfaction &amp; reputation - Tolerance, Empathy, Client's long-term relationship, ethnic closeness</b>	Association with deities
Basis of Norms	<b>Membership in household - <i>Kekeluargaan</i> amongst staff</b>	Group membership	Membership in congregation

**Table 9.2. The impact of *Kekeluargaan* on three Institutions**

The foregoing Table 9.2 and discussion illustrate that KAP's institutional fields differ from those of a Western setting. The Javanese norms are considered to be the overarching elements that dominate Indonesian culture. Table 9.2 summaries the *kekeluargaan* values, which are internalised into three existing institutional orders offered by (Thornton *et al.*, 2012). Note that the red font showing the symbols and practices of *kekeluargaan* is provided on the basis of institutional orders and categories.

Table 9.2 demonstrates particular Indonesian cultural symbols and practices of the *kekeluargaan* values and can be related to the existing institutional orders from Western studies. The three existing institutions, namely Family, Community and Religion, illustrate elements that are part of the *kekeluargaan* values. The wide-spread norms of *kekeluargaan* require further scrutiny in defining the appropriate institutional order for Javanese values in society. As such, the researcher suggests that *kekeluargaan* can be inferred as a hybridisation of the three institutions into one Order to represent the overarching values of *kekeluargaan*.

### **9.3. Part Two: Four Indonesian Institutions in the Accounting Firm**

The next section refers to the four proposed Indonesian audit professionalism institutions. The development of a specific institutional order is needed to ensure that (a) all cultural symbols and practices found in the Indonesian context are accommodated, and that (b) an institutional logics framework can be implemented in a manner that the Indonesian norms can be analysed, as they are manifest in audit practices. Each cultural symbol and practice is defined and then positioned on the matrix between the institutions and the categories of norms and beliefs.

### **9.3.1. *Kekeluargaan as an Indonesian Institution***

In the original setting of institutional logics, family institutional order is derived from having one family member managing one company. An example of this can be seen in the illustration by Thornton *et al.* (2012) of the J.C.Penney case of segregating family and blending religion and corporate settings. At first, J.C Penney was established as a family business and dominated US business in the 1900s. The company soon realised that having a family business orientation would mean losing the trust of non-local merchants. Penney then decided to change his company's business orientation from that of family to religious-based ethics. This orientation resulted in a successful chain of stores and helped to increase public trust. His philosophy of the 'Golden Rule Stores' managed to convince his customers that managers and customers are all part of a 'congregation'.

The definition of 'family' in the Penney narrative refers to a specific form of family-oriented business, with staff members being siblings and relatives. According to Thornton *et al.* (2012) the "Family" institution has a legitimacy of unconditional loyalty and family reputation as its sources of identity. *Kekeluargaan*, on the other hand, does not require a blood-related connection to the firm. This value takes on a broader perspective: the family, the community and religious bases. Informed by the two core Javanese rules of *Rukun* and Respect, the values of *kekeluargaan* can be found within individuals and in the firm.

Harmony, as one of the legitimate steps towards *kekeluargaan*, is manifested in most Indonesian behaviour and business community. The following provides some empirical evidence of the existence of harmony.

1. Negotiation between two parties flourishes when there is harmony. Indonesians tend to be deferential listeners and speak less assertively to their counterparts, in order to achieve harmony (Lewis, 2006; Sitorus & Budhwar, 2003).
2. Long-term relationships are also more important than rules and a tough negotiating stance (Perks & Sanderson, 2000).
3. Conformity is valued above individuality, in order to increase the potential for harmony within a group (Lewis, 2006).

As a source of authority, *kekeluargaan* values have three driving forces: Founder's values, Respect to elder, and Nationalism. The founder's values in the Indonesian context can be interpreted as those of an institutional entrepreneur. DiMaggio (1988) defined institutional

entrepreneurs as agents that create new and modify old institutions due to the accessibility of resources which support self-interest. The agent has an opportunity to become the core logic of an institutional change, based on differentiation, fragmentation or contraction within the organisation.

From the macro-perspective, respecting elders is a norm that has long-existed in the Indonesian environment. The *hormat* norm is a Javanese term that defines the recognition of superior rank by means of the appropriate forms of etiquette (Geertz, 1961). This norm is reflected by staff respecting the leader's values, which are imitated as if the values were their own (Irawanto *et al.*, 2011b). *Bapakism*, which generally means to respect the 'father', can be defined as the macro-foundation of Indonesian society, affecting the behaviour of all Indonesians, including auditors in KAP. In this case, such a norm is considered the driver that generates cultural embeddedness in an Indonesian organisation and is also considered the dominant institutional logic. The actor, in this case the founder, is the focus of attention: he is the actor who created the cultural foundation and influences the staff with his values. Some of the consequences are that the oldest or most competent partners assume leadership: age, seniority or military rank accords status; superiors are expected to be paternalistic and the *Bapakism* value is not to be criticised.

Friedland and Alford (1991) illustrated that in order to analyse an institution, one must consider symbols and practices. Similar to the default institutional orders by Thornton *et al.* (2012), the family and religion are directly involved in the production, distribution, and consumption of goods and services (Becker, 1976). Showing respect to the founding father can be construed as an important symbolic practice in Indonesia, although such a value does not automatically represent power, authority or class strata between staff and leader (Irawanto *et al.*, 2011b). Respect or *hormat* cannot be neglected and must be appreciated in all Indonesian firms as the macro-foundation of normative institutions.

In terms of concerns about the nation state, Indonesians have a strong belief in their national motto "Bhinneka Tunggal Ika", which means 'unity in diversity'. Since independence, this motto has unified all Indonesian people, regardless of their domicile, religion, ethnic group or status. Moreover, the five pillars of *Pancasila* as the official philosophical foundation, unify and arch over the character and daily life of the nation. These symbols represent the unification of Indonesia, and are honoured by all Indonesians. Being nationalistic means protecting their

domestic interests from foreign influence and domination. Thus, nationalism can be classified as a source of authority for Indonesian *kekeluargaan*.

Sources of identity consist of three symbolic attitudes and practices: Tolerance and empathy, Client's long-term relationship and Ethnic preference. The Indonesian will show a high level of tolerance and empathy, reflected outwardly in his/her attitude to others. As described in Chapter Six, tolerance originates from the unique nature of Javanese religion, which incorporates various ethnic and class strata within one religious group. Historically, at least two foreign religions, namely Christianity and Buddhism, were easily assimilated into the Javanese community (Anderson, 1965) and Javanese culture continues to evolve with a strong tradition of accepting other cultures and religions. Such high tolerance is reflected in the effort to reach mutual cooperation and consensus, called *musyawarah* (Magnis-Suseno, 1997; Mulder, 2005), and the feeling of reciprocity, giving and caring to others, namely *Tepa Selira* or empathy feeling (Geertz, 1961; Magnis-Suseno, 1997). Chapter Six also provided evidence of considerable tolerance in KAP, such as considering family issues as opposed to achieving targets, accepting minor mistakes and excuses for lateness. In turn, attitudes of tolerance and empathy represent the genuine identity of being Javanese, on a smaller scale, or Indonesian, in the broader sense.

On the other hand, long-term relationships with clients are closely related to ethnic preferences. Although the influence may be opaque, ethnic preference may still be manifested when demonstrating business networking. Chapters Six and Eight illustrate that the Batak and the Indo-Chinese have advantages in communicating with clients and fellow auditors. Moreover, the domination of the Indo-Chinese in business leads to a preference in favouring new Indo-Chinese staff, compared with other ethnic groups. There is a sense that an auditor and his/her client are most comfortable when they share the same ethnic identity. Nonetheless, the study of KAP confirms that ethnic-based selection is prohibited in the formal recruitment processes. The long-term relationship with clients corresponds with the views of Perks and Sanderson (2000) and Sitorus and Budhwar (2003), which confirmed that Indonesian businessmen prefer to have long-term relationships, rather than a one-off transaction. In summary, tolerance and empathy, a client's long-term relationship and ethnic preference may be considered core elements in the *kekeluargaan* institutional order.

### 9.3.2. *Client as Indonesian Institution*

As discussed in Chapter Eight, the “client” contributes to the development of an Indonesian auditor. There is evidence that the audit practice is influenced by client characteristics, based on business types (SOEs and family business), cultures and norms, and ethnic preference. Further investigation confirms that these elements are manifested through symbols and practices, and auditors must be aware of such norms. As Thornton *et al.* (2012) suggested, the cultural symbols and practices that manifest themselves in a person’s behaviours and attitudes can be classified into the relevant institutions.

The development of “client” as an institution can be further considered as follows. Firstly, as evident in Chapter Eight, factors such as hierarchical attitudes and power are implicated in the Indonesian audit in the client relationship. A client positions themselves as “master” and the auditor is their “servant” in the classic agency relationship: the Indonesian client has more bargaining power than the auditor. A paternalistic behaviour is impounded into bureaucracy and power distance in most government agencies, including public sector and state-owned enterprises (SOEs). This was confirmed by Irmawan, Hudaib, *et al.* (2013): that Javanese attitudes and worldviews permeate the Indonesian bureaucracy, government and the military. As a consequence, economic power underpins this bargaining relationship, and it is legitimate that a client may ask an auditor for any services, including providing/preparing their financial reports.

Secondly, as a basis of norms, the *bapakism* and *hormat* norms dominate the relationship. This is a fundamental norm from the Javanese perspective; to respect the *Bapak*, and be loyal and obey his rules is a priority. *Priyayi* is considered the highest stratum in Javanese society (Geertz, 1961; Irawanto *et al.*, 2011a; Magnis-Suseno, 1997) while the *Bapakism* norm (akin to a paternalistic leader) means that important person in the society must be treated with respect (Efferin & Hopper, 2007; Rademakers, 1998). As such, the outcome of this institution is being respectful of the client’s culture.

Thirdly, these findings conclude that personal approach to client is considered most appropriate. Appropriate gestures and greetings are essential to access a client. Thus, it is important for an auditor to develop communication and persuasion skills including amicable chatting and treating to lunch; these are some of the informal manifestations of Indonesian hospitality.

As a result, descriptions provided in Chapter Eight are reflected in the auditor’s point of view which can be inferred as an auditor’s logic. Hence, one contribution of this study is to develop a “client” as an institution of Indonesian audit professionals as summarised in Table 9.3.

<b>Categories</b>	<b>Institutions</b>
	<b>Client as coercive norms</b>
Root Metaphor	Client as “Master”
Sources of Legitimacy	Money reasoning
Sources of Authority	Hierarchical meetings
Sources of Identity	Ethnic preference
Basis of Norms	Bapakism
	<i>Hormat</i>
Focus of Attention	Respect client’s culture
Strategic Basis	Personal approach to client staff
Informal Control Mechanism	Amicable chat
	Go out for lunch
Economic motivation	Minimum fee for maximum services

**Table 9.3. Client as institution**

### ***9.3.3. The Indonesian Accounting Profession as Institution.***

According to Thornton *et al.* (2005), fiduciary logic explains the initial establishment of the accounting profession, where accountants were obliged to verify the legitimacy of clients' financial statements and to protect public interest from market opportunism. Chapter Seven describes the role of the Indonesian accounting profession in developing accounting education and standards. Such obstacles are illustrated, especially the challenges of the uncoordinated regulations of the government, and unenforced rules stipulated by the authority and the Association, and IFRS adoption issues.

Table 9.4 compares the institutional orders between the Western fiduciary logic, in particular US and UK, and the Indonesian accounting profession. Thornton *et al.* (2005) offered a comparison of logics found in the large US accounting firms, whose mission was to build the legitimacy of public corporations and the prestige of the partnerships. In US accounting history, accounting firms were treated similarly to other professions such as teachers, priests, lawyers and physicians (Jones, 1995); and the logic of accountancy was to focus attention on verifying a client’s financial statements (Thornton *et al.*, 2005). Moreover, the development of accounting firms can be traced back to institutional entrepreneurs, such as Waterhouse, Young,

Andersen, Haskins and Sells. These founders of accounting firms contributed to the professional associations with their fiduciary logic.

<b>Categories</b>	<b>Western Fiduciary Logic Profession</b>	<b>Fiduciary Logic of Indonesian Accounting Profession</b>
Root Metaphor	Profession as a relational network	Profession as an independent movement
Basis of Norms	Build prestige of partnership	Devoted to interests of the nation
Basis of Attention	Status in profession, selling legitimacy	Guide and enhance the quality of Indonesian accountant

**Table 9.4. The Western Fiduciary Logic and the Indonesian Accounting Profession Logic**

The historical development of Indonesia's accounting profession, on the other hand, is different to those of the US and the UK. This results in a different setting for an institutional order. Chapter Seven illustrates several attempts by local auditors to avoid foreign intervention and domination in management of accounting firms. Moreover, there was only one Indonesian accountant at the time of independence; Prof. Abutari, who graduated in 1950 in the Dutch accounting system when it dominated the nation (Murwanto *et al.*, 2011). The establishment of local accounting firms, as well as the accounting association, was an effort to produce the first Indonesian professional accountants. This followed government regulations that had nationalised Dutch-owned enterprises, and led to the departure of Dutch accounting firms. The movement to an Indonesian profession includes the first accounting programme developed by University of Indonesia in 1952 (Murwanto *et al.*, 2011), the first regulation of accounting law in 1954 (Sukoharsono & Gaffikin, 1993b) and the establishment of the Indonesian Accounting Association in 1957 (Tuanakotta, 2007). Hence, the Indonesian accounting profession was initiated as a movement to independently establish a localised accounting profession.

Another category focuses on the basis of norms and focus of attention. Thornton *et al.* (2005) explained that during 1890's, in the US, accountants were aiming to legitimise their reputation, standardisation and conservatism, all through verifying client financial statements. Their

mission was to build the prestige of each partnership, and the priority of accountants was to maintain such legitimacy and gain a privileged status in the business environment.

On the other side of the spectrum, Indonesian accountants had different perspectives, in terms of norms and focus. Since the establishment of the Accounting Association, Indonesian accountants have focused on nationalism and generating qualified local accountants. After the nationalisation of Dutch enterprises in 1950s-1960s, and the growth in numbers of local accounting firms (see Appendix Table A2), there has been a continued effort to change the previous Dutch-based accounting mechanisms and education. Initially, scholars were sent to study in Holland but later students were sent to UK and US to study accounting and taxation (Abdoelkadir, 1982). Moreover, the government attempted to change the Dutch terminology of *boekhouding* (bookkeeping) into *accounting* (Tuanakotta, 2007). The devotion and commitment to build a strong Indonesian accounting profession is symbolised and enacted in the Indonesian accounting professionalism institutional order.

#### ***9.3.4. The Global Professional Networks as Institution***

GPN, embedded in the Big-4 business strategy, are an archetype of another institutional order. The corporate logic offered by Thornton *et al.* (2005), is the logic that is generated by the spirit to develop the accounting profession as an industry and is closely connected to a market-driven and service-selling orientation. Much of the argument in these findings, as well as from literature, confirms that corporate logic is a strong impetus in all international accounting firms. In Table 9.5, it can be observed that the cultural symbols and practices represented by corporate logic support the notion that accounting firms are being managed as corporations and tend to disempower the professional bodies.

GPN also have an extended version of not only constituting the corporate-oriented firm, but also the continued business expansion towards transnationalism, as well as internal differentiation (Brock, 2006). As mentioned in Chapter Two, the six characteristics, representing the emerging archetype of GPN, complement the increasing business-type orientation of accounting firms. These characteristics can be a benchmark in order to scrutinise possible cultural symbols and practices, embedded in individuals and organisations. The six characteristics are: (1) managerially-focussed and with more business-like operations; (2) business-like governance structures replacing the partnership model; (3) increased global reach; (4) a trend towards multidisciplinary practice; (5) reliance on formal networks instead of informal networks, and (6) more-individualised reward schemes (Baskerville & Hay, 2010;



Brock, 2006). These characteristics have a similar orientation to the corporate logic offered by Thornton *et al.* (2005). Points 5 and 6 illustrate an internal structure concerning personnel issues, while others represent the global strategy. All elements reflect the degree of accounting professionalism and those of affiliated local firms. There is strong evidence that GPN generate a competing logic with the local cultural logic, and impact on the manifestation of accounting professionalism in Indonesia.

### 9.3.5. The Four Proposed Indonesian Institutions: a Summary

As a consequence, the researcher proposes a revised institutional order, illustrated in Table 9.5. This offers a set of institutional orders and categories based on the analysis of the Indonesian accounting firm. *Keluargaan* becomes a single institution, followed by government or regulators and the Indonesian accounting profession as single institutions.

Categories	Institutions			
	Keluargaan	Client	Indonesian Professionalism Norms	Corporate Logic
	(Cultural Norms)	(Cultural Norms)	(Coercive Norms)	(GPN Norms)
Root Metaphor	Keluargaan as family	Client as "Master"	Profession operates as an independent movement	Corporation as hierarchy
Sources of Legitimacy	Harmony, Long-term relationship	Money reasoning	Reputation of auditor's integrity, standardization, and conservatism	Scale and scope of firm, audit market share ranking
Sources of Authority	Leaders' and Elders' Values, Community consensus	Hierarchical meetings	Professional Association, Government regulation, IFAC	Management Committee, Managing Partners, Government regulation
Sources of Identity	Sense of belonging	Ethnic preference	Accounting as a respected profession	Accounting as an industry
Basis of Norms	Javanese Rukun & Respect	Bapakism, Hormat	Devoted to the interests of nation, professional standards	Consensus of meaning of professionalism
Focus of Attention	Tolerance and Empathy, respect elders	Respect client's culture	Guide and enhance the quality and reputation of Indonesian accountants	Selling services, Generate profits, Maintaining reputation
Strategic Basis	Increase trust among members	Personal approach to client staff	Prepare and authenticate client financial statements, advise members appropriately	Growth through merger and acquisitions, differentiate on reputation and client service
Informal Control Mechanism	Amicable chat, Lunch gathering	Amicable chat, Go out for lunch	Mentors, Firm Owners	GPN, IFAC, other partners/owners
Economic motivation	Commonweal	Minimum fee for maximum services	Personal wealth maximization	Entrepreneurial capitalism

**Table 9.5. The Indonesian Accounting Inter-institutional System Ideal Types**

The last order of the institutions is derived from the corporate logic proposed by Thornton *et al.* (2005), where GPN is the norm of this institution. The four institutional orders are presented in a way that the first three orders originate from the Indonesian context, whereas the last order is the Western-influenced “corporate” accounting firm. Note that the categories remain unchanged and, as Thornton *et al.* (2012) suggested, these categories are derived from research of interdisciplinary scholars and evidenced by their previous empirical research. To achieve the objective of this research, the categories are limited to root metaphor, sources of legitimacy, sources of authority, sources of identity, basis of norms, basis of attention and economic motivation, as shown above in Table 9.5.

### **9.4. Part Three: Implications of the Indonesian Institutions to Audit Professionalism**

This section combines and analyses all aspects described above and the consequences for audit professionalism. The four proposed institutional orders described above have unique characteristics which are represented by categories or symbols and practices carried out in different institutional fields (Thornton *et al.*, 2012). In addition, this research identifies the “ideal” types of institution that reflect the Indonesian variety of cultural values. It is important to scrutinise each ideal type, in order to answer the research question regarding the effect of GPN and Indonesian culture on the manifestation of accounting professionalism.

Figure 9.1 offers a schematic interaction between the four institutional orders and accounting professionalism:



**Figure 9.1. Institutional Orders and Audit Professionalism**

Figure 9.1 illustrates the relationship between the Indonesian institutions and audit professionalism. The four institutions are *kekeluargaan*, clients, Indonesian Accounting Profession, and the Global Professional Networks. According to the analysis, these institutions are key factors that influence Indonesian auditors as professionals. Moreover, the six dimensions offered by Kerr *et al.* (1977) are employed, as described in Chapter Two, which are: Expertise, Autonomy, Collegial Maintenance, Ethics, Professional Commitment, and Identification. The following section illustrates the nexus of the four institutions within the six professionalism dimensions.

#### ***9.4.1. Issues in Indonesian Accounting Expertise***

Expertise normally stems from prolonged specialised training in a body of abstract knowledge (Kerr *et al.*, 1977). The expertise dimension therefore relates to a person who obtains specialised training and knowledge to reach a level of expertise. Like other professions, such as engineers and scientists, professionalisation of accounting requires a process and time to educate someone to be reliable in the field. They must also have a moral and ethical responsibility to their work and to the environment, as well as to their clients.

In the case of Indonesia, “expertise” is one of the problems encountered in which accounting resources are lacking. This thesis shows that the “expertise” dimension is influenced by following factors.

##### ***9.4.1.1. The quality of Indonesian accounting graduates***

Based on the analysis of the four institutions, the “expertise” dimension is the responsibility of Indonesian Accounting Professionals. The accounting profession is scrutinised using categories provided to investigate its norms and roles. In the terms of a root metaphor, Indonesian accounting is a profession that operates as an independent movement (see Table 9.4). History confirms that after the Dutch enterprises were handed over in the 1950s, the establishment of the Indonesian accounting profession focused on improving the quality of local accountants. The motivation was to alleviate the influence of the Dutch accounting system while searching for accounting systems suitable for Indonesian needs. As a source of legitimacy, there was a high level of demand for upgrading the quality of auditors.

The findings in Chapters Six and Seven, however, indicate that there has been an issue in recruiting qualified accounting graduates in Indonesia. Communication skills in English and confidence in their profession are some of the issues that were found in KAP’s recruitment

process. Also, Chapter Six illustrates that accounting graduates prefer not to pursue their first career in accounting firms. The number of graduates from prominent universities in Indonesia applying for auditor roles is decreasing, apparently because they prefer to seek a job that is work-life balanced.

#### *9.4.1.2. The lack of IFRS expertise in the audit industry*

The issue arises when the need to update current knowledge and training, in relation to the adoption of IFRS, is limited. The findings in Chapter Seven suggest that there have not been sufficient IFRS centres. One of the reasons is the limited number of competent staff who understand IFRS adoption. Although the Indonesian Accounting Association (IAI) and the Indonesian Institute of CPA (IAPI) have put a lot of effort in assisting their members to improve their standards, there are many obstacles facing adoption. As a consequence, the limited number of experts and the lack of resources in the Association resulted in a great need for assistance from the Big-4 in adopting IFRS.

The Big-4 have participated in the Associations since the 1970s. They have been actively involved in auditing activities and improving auditing education in Indonesia. Chapter Six shows evidence that the Big-4, like KAP, have an advantage in accessing IFRS knowledge, technology and training, which was given to all new recruits prior their first audit work. Also, Chapter Seven describes that partners of the Big-4 are also positioned on committees and as chairs in the associations (both IAI and IAPI). Hence, there is a significant influence of the Big-4 in improving the “expertise” dimension.

There was a considerable gap, however, between the IFRS guidance, as translated into *bahasa* Indonesia, and actual practice. There is the possibility of distortion and wrong interpretation in translation, resulting in different applications by auditors, clients and the regulator. This affects two aspects: firstly, the unpreparedness of the Association in the process of the adoption of IFRS, as well as business in applying IFRS in the financial statements; and secondly, the influence of the Big-4 is greater in the Indonesian accounting development. Staff in such entities may well refer competently to the English versions of both IFRS and ISAs<sup>22</sup>.

Based on the Indonesian accounting inter-institutional system, shown in Table 9.5, the Indonesian Accounting Professionalism, as a normative institution, is supposedly providing all

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<sup>22</sup> International Standards of Auditing issued by the International Federation of Accountants

the necessary resources to develop accounting education and training to the profession. Chapter Seven illustrates that the role to become the centre of training and knowledge cannot be offered entirely by the Associations. This finding is supported by Irmawan, Hudaib, *et al.* (2013) when the Indonesian Accounting Association failed to develop their own standards to fulfil local needs. This has also occurred in other developing countries, such as Sri Lanka, where the professional body failed to sufficiently support and ‘grow’ local accountants (Yapa, 2006).

As a consequence, the Big-4 participation in this area is dominant. This analysis is confirmed by Cooper and Robson (2006), that multi-national accounting firms are largely involved in the standard-setting process, delegating their partners to become committees in the accounting associations. Hence, the GPN norms in the expertise dimension are influential, both nationally and internationally.

#### *9.4.1.3. Understanding Indonesian culture as “expertise”*

In terms of cultural norms, *kekeluargaan* norms have an important role in enlightening the expertise dimension. One factor that affects professionalism is Javanese *Rukun* and Respect as the basis of norms. As a norm that is used widely throughout Indonesia, an auditor should understand these values instilled by Javanese culture as the dominant culture in the business environment. Behaviours such as Amicable Chats and lunch meetings, are manifestations of such in the business community norms in Indonesia. This is consistent with studies by Lewis (2006) and Sitorus and Budhwar (2003) on the implementation of Javanese culture. Evidence from Chapters Six and Eight shows that an auditor’s soft skills of informal communication and negotiation are needed in order to provide successful tools in dealing with their clients. Therefore, the definition of “expertise” means a professional must be equipped with such knowledge of Indonesian culture.

#### *9.4.2. The level of audit autonomy in Indonesia*

The second dimension of professionalism is Autonomy, which defines auditors as having the ability to encourage independence of thought and action when performing audits in the field, based on the auditor’s Code of Ethics. In this case, the chapter findings illustrate several issues related to Indonesian auditor independence.

Chapters Six and Eight illustrate some of the Javanese norms of *kekeluargaan* that influence auditor independence. The feelings of sympathy and empathy, illustrated by a manager, show that the Indonesian has a sense of helping another. This is exercised by the norm *gotong royong*

and *tepa selira*. An example in Chapter Eight shows that a client often asks the auditor to make their financial statements. The findings suggest that there are numerous cases that illustrate this behaviour in Indonesia. Client behaviours impact the degree of auditor independence; such coercive norms (derived from Javanese *bapakism*) results in the client being positioned as the “master”. Chapter Eight illustrates how a client may ask auditor to provide financial statements, rather than to audit them. The tolerance value means it is most probable the auditor complies with the client request. Moreover, many of the clients assume that by paying large amount of fee, they are free to ask any financial advisory services of the auditor. Hence, tolerance, which is the focus of attention of the *kekeluargaan* norms, can affect an auditor's independence. According to the IFAC principles, the implementation of audit independence and integrity are thereby violated. Thus the cultural norms that allow a client to gain power to influence the auditor contribute to the loss of auditor independence. Typically, informal behaviour with an amicable chat, and perhaps entertaining a client for lunch, are other aspects that can compromise the appearance of the auditor’s independence.

The two Javanese norms of high level of bureaucracy and Javanese *bapakism*, play an important part in shaping audit independence. This is shown in Chapter Eight, where auditors must be aware of such norms embedded in government and SOEs. On one hand, there is a need to understand the Javanese norms of *rukun* and respect in order to support the audit approach, such as providing amicable chat, and treating client for lunch. On the other hand, by understanding the two Javanese norms, the auditors almost inevitably jeopardise achievement of auditor independence by such compromises, albeit well-meaning.

The study suggests that by employing the four institutions of accounting professionalism, the perception of independence can be interpreted differently to that applied in Western society. Auditor independence is associated with tensions between fiduciary and corporate logics, which tend to be a two-dimensional relationship (Thornton *et al.*, 2005). This study found that the four institutions, namely cultural, coercive, normative and GPN norms, all contribute significantly towards the disappearance, or perceptions of loss, of the ideal of auditor independence.

### **9.4.3. Collegiality among Auditors**

As a consequence to high collectivism, the Indonesian auditors are believed to have a high degree of collegiality. Moreover, by appreciating the above four Indonesian institutions, the collegiality of Indonesian auditor can be explained thus:

Firstly, cultural norms influence the collegial maintenance of standards. In Chapter Six, the impact of tolerance and empathy is described. Tolerance among colleagues could weaken the supervision among auditors, and lead to compromise on a particular decision, especially when the decision is contrary to the Code of Ethics. The analysis suggests that the nature of a compromise was found when clients requested the auditor to assist with their financial statements. In fact, several auditors express, "This is a public secret," to show that in reality, auditors can act as financial consultants while being their auditors at the same time. The question whether "collegial maintenance" has deviated from its purpose to maintain standards into maintaining "colleagues" is yet to be resolved.

Secondly, the value of *Keluargaan*, as the basis of Indonesian cultural norms, can also act as an informal control for mentoring and in consultations with staff. This can be found in KAP, where there is a mentoring programme between the junior and the senior staff, whose function is used as a means of informal discussion on personal and work issues. This session is considered effective in Indonesia because the lower-ranked staff can express any feelings to senior staff that cannot be disclosed to his/her direct supervisors. This is an effective method to accommodate the Javanese norm of *sungkan* (shyness): a behaviour that forbids a person to reveal concerns explicitly and encourages silence. Thus, in this context, the informal monitoring function can be used as a reference point or benchmark to maintain audit standards and the performance of auditors.

#### ***9.4.4. Keluargaan and the perception of the ethical dimension***

The "ethics" dimension is a contested sphere, in terms of its specific definition in different contexts. The ideals of Western ethical behaviour are different to what may be termed Eastern perceptions of the ideal. In turn, cultural contexts are a major factor as to how people define 'good' or 'bad' ethical behaviour. From the Indonesian perspective, ethical behaviour can best be understood at the nexus of the afore-mentioned four institutions: cultural, coercive, normative and GPN norms.

*Keluargaan*, as the defined cultural norm, can be an institution that contributes significantly to the perception of ethics. The analysis suggests that 'Harmony', as the source of legitimacy, contributes to three manifestations: negotiation, long-term relationships and conformity.

First, negotiation between two parties is nurtured by harmony between them. The auditor's independence may be secondary as long as harmony leads to consensus. As a consequence, the

steps or processes leading to honest adverse or qualified (negative) audit opinions may be compromised by this pressure for consensus. The practice of compromise is common in Indonesian business, which was discussed in Chapter Six.

Second, a close relationship between auditor and client can result in a more of a 'give and take' relationship. Knowing each other's habits and other personal preferences, covered in Chapter Six, is considered ethical, in that all Indonesians have *kekeluargaan* as their common norm. But as far as the IFAC code is concerned, such behaviour may be deemed unethical, in that such a relationship threatens the professional standards, and is prohibited (IFAC, 2010).

Regulators, on the other hand, are obliged to provide strict regulation on ethical behaviour in auditing. The International Federation of Accountants (IFAC) has released a Handbook of the Code of Ethics for Professional Accountants to provide clear guidance for accountants. Its mission is to "serve the public interest by continuing to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards" (IFAC, 2010, p. 2). The problem occurs when the Code is implemented in a particular country, where political, economic and social situations do not provide a supportive environment to practice sound ethical conduct. This evidence is found in Chapters Six, Seven and Eight, where auditors faced situations that jeopardised their independence. Moreover, developing countries such as Indonesia struggle to enforce such regulations. It is most common that ethical behaviour is seen to be shifting from the (IFAC) original principles and deviate into "suitable conduct" as locally determined. Several such examples of unethical conduct were described in Chapter Seven, such as where a 'skeleton' accounting firm is used as a front for a secondary active firm; this simplified the formalities which were part of the government sector audit tendering purposes. Similarly, assisting a client with its financial statements is considered unethical by auditors who are auditing that client. Such behaviours remain in practice.

There are some issues pertaining to the role of regulators and associations, as coercive and normative roles respectively, to supervise the application of codes of ethics. Originally, supervision was intended to curb unfair competition among auditors, and is the main role of the Accounting Associations, as well as regulators. However, Chapter Seven found otherwise. Association and regulatory oversight roles have become minimal, which lead auditors, especially in small audit firms, to violate some provisions established in the Code of Ethics. Other findings suggest that coordination between government bodies to oversee a company's



financial statements is limited, and only the Ministry of Finance has the capability and knowledge to audit works. The Ministry of Industry and Trade, which is responsible for inspection and supervision of all limited liability firms' financial reporting, has little expertise in accounting and auditing. The regulator was unable to enforce the law and impose sanctions and was unable to govern auditor misconduct. Therefore, the latest legislation concerning accounting firms in 2011 includes criminal sanctions for auditors who intentionally violate the code of ethics, rather than applying administrative and professional sanctions.

In terms of corporate/GPN norms, the "ethics" dimension is strongly influenced by the Western perspective, embedded in the international standards. Moreover, KAP as one of the Big-4, has a reputation of maintaining the Code of Ethics with its auditors. Auditors must maintain a high level of standards and apply all the codes set by IFAC, as well as those of their firm. This is shown in Chapter Six, where most KAP staff agree to comply with the KAP international Code of Ethics when undertaking audits. Nonetheless, Chapters Six, Seven and Eight illustrate that the application of the Code based on IFAC cannot be applied rigidly in Indonesia and must be 'compromised'.

#### ***9.4.5. Professional commitment***

Work commitment is closely related to work tenure. As Kerr *et al.* (1977) defined it, commitment is a dedication to the work and the long-term career aspirations of the professional. In this study, the analysis found two tensions related to commitment, *kekeluargaan* and corporate institutions. The first concept requires that, in order for a firm to gain loyalty and tenure of staff, it must provide a comfortable working place with friendly colleagues. The principle of harmony is endorsed as legitimacy in *kekeluargaan*, which is discussed in Chapter Six. Behaviours, such as being sympathetic and empathetic to colleagues, is a manifestation that can retain employees. As a source of identity, a sense of belonging supports the achievement of *kekeluargaan* in a firm. The sense of belonging to fellow staff and to the company is a key factor in maintaining the loyalty of staff. In addition, "amicable chat" among staff, which includes family issues, is one of the manifestations of Javanese norms to increase empathy among staff.

On the other hand, corporate institutions stress an orientation towards large profits and diversification of services. As a company, KAP imposed a hierarchy of employment systems, where salary and rank are judged on performance and achievements of staff. This has created competition, whether healthy or not, among the staff in order to get higher positions with

greater remuneration. Moreover, the findings of Chapter Six concluded that workload and long hours of audit work has led some accounting graduates to avoid accounting firms as their career path, or they resign as auditors after only a short time.

This analysis confirms that commitment to the audit profession is influenced by tensions between *kekeluargaan* and corporate norms. An example described in Chapter Six illustrates that the CEO of KAP preferred not to include the *kekeluargaan* value in his working environment. This is because the senior management saw *kekeluargaan* as a burden in managing the firm's management and decision-making.

#### **9.4.6. Auditor as Identity**

Lastly, construction of identity can be facilitated by the use of the profession, and fellow professionals, as key referents (Kerr *et al.*, 1977). As part of scrutinising Indonesian accounting professionalism, it is important to investigate the historical development of Indonesian professional accounting. Any such identity enables individuals to harmonise values, beliefs, and rules, by which it gives meaning to daily lived lives and the broader social reality (Thornton & Ocasio, 1999). Indonesian accountants have a strong motivation to develop a self-regulated association, as well as to improve the quality of accounting professionals. Their identity as Indonesians is evident, given the fact that local auditors have been competing with foreign auditors in the industry for some time. The failure to reach a mature stage of professionalisation, and the ability for locals to gain market share of major clients, are areas in which the local accounting firms struggle to compete with the multi-national ones. Chapter Seven illustrates that small audit firms had less opportunity to compete with the larger firms. This analysis is consistent with several studies conducted in other developing countries, in that the professionalisation of accounting has caused tension between the local and foreign accounting firms.

With regard to ethnic background, the analysis shows various ethnic stereotypes are acknowledged by KAP as part of the rich diversity of Indonesia. As part of their identity, ethnic values are considered very important and reflect in actions and attitudes in the work environment. The analysis illustrates three major ethnic groups in KAP, namely Batak, Javanese and Indo-Chinese, each have their unique characteristics, norms, behaviours and attitudes (see Chandra, 2004; Efferin & Hopper, 2007). Chapter Six emphasises the unification of ethnic groups towards harmony, but also illustrates such differences of ethnic norms and identities. This shows how well Indonesians acknowledge the diversity of ethnic groups, which

supports a strong unified nationalism as part of their identity. Also, evidence in Chapter Eight shows that some clients prefer to choose their auditor based on ethnicity, particularly the Chinese Family Business and some State-owned enterprises.

On the other hand, the Big-4, which possess most of the resources, have been the dominating institution in the audit industry, and inevitably recruit most of the best accounting graduates from local and international universities. They have the privilege to recruit quality graduates to develop and train their audit skills and to reproduce their firm-specific professional identity. As such, the Big-4 auditors have the advantage in gaining qualified graduates which lead to social inequalities in the audit profession.

## **9.5. Conclusion**

This chapter describes how the four Indonesian institutions affect audit professionalism. Institutional logics, as the framework, can incorporate Indonesian norms and values, as well as to provide a holistic perspective in a particular country. It can be said that this study has found a distinctive set of behaviours, compared to those offered by Thornton *et al.* (2012) societal settings. *Kekeluargaan* and Client as institutional orders are two overt findings that can be understood as particularly Indonesian institutions. Both orders, along with the Indonesian accounting profession, and the Global Professional Networks, formulate a broad understanding of the local and global contexts. It can also be said that based from the six attitudinal dimensions of Kerr *et al.* (1977) for professionalism, it is highly likely that the implementation of audit professionalism is being exposed, and at times compromised, by institutions in Indonesia. As such, it can be expected that the generic specification of audit behaviour must take into consideration the local aspects of norms and other important institutions.

## **Chapter Ten**

### **Conclusion**

## 10.1. Introduction

The purpose of this research was to investigate factors that can influence Indonesian audit professionalism, offering a multi-dimensional perspective. The multiple issues in analysing characteristics embedded in the Indonesian context have generated a greater understanding, not only from Western perspectives, but also for Indonesian research perspectives. Even during the project, the challenge in employing an appropriate framework to identify such norms and values became explicit. There are many factors related to the attitudes of auditors that influence their work practices and accounting activities, and so careful scrutiny of all such factors is needed.

A research question in this research was: To what extent do the values of the global professional network, as well as Indonesian national cultures, affect the manifestation of accounting professionalism within accounting firms? Thus this study has revealed the effects of the organisational culture of one of the Big-4 accounting firms in Jakarta, Indonesia (in this study called "KAP") on the norms and values of its Indonesian auditors.

Moreover, the theoretical framework used in this study enables the researcher to identify the relationship between auditors and the organisation, using the perspective of Thornton *et al.* (2012). The study offers a comprehensive understanding of the organisational culture of an Indonesian accounting firm which includes its manifestation of norms and values constructed by individuals. These values and norms are socially constructed in the organisational field and become rationalised and legitimised by the members of the organisation. Institutional fields are external factors that can contribute significantly towards institutions within an organisation. These dimensions are combined in an institutional analysis in order to explore all possible influences on audit professionalism in Indonesia.

## 10.2. Conclusion

The study found three central topics revealed in KAP: cultural influences, accounting development and professional issues, and client behaviours. The core analyses of these three central topics are offered in Chapters Six, Seven and Eight. These factors contribute to the construction of institutional logics. Based on the institutional framework outlined by Thornton *et al.* (2012), the process of scrutinising such logics starts from the micro-perspective of individuals, such as focus of attention, activation of identity, goals and schema, and the construction of social interaction. These micro levels are projected towards the macro-level of

organisational practices and identities. The manifestation of such practices is institutionalised as logics within the organisation. From the investigation process, the study indicates four institutional logics which are related to Indonesian accounting professionalism, namely *kekeluargaan* as a cultural norm, client as a coercive norm, Indonesian accounting professionalism as a normative norm, and corporation as the GPN norm.

The study therefore concludes that audit professionalism is a set of attitudes and behaviours that can be perceived and actioned differently, based on the different institutional fields. The application of Western audit standards may have a different outcome in Indonesian firms, due to the four institutions as identified above. Moreover, the investigation of those institutions reinforces the earlier claims that professionalisation and professionalism of accounting are inseparable. Such a holistic perspective is needed, in order to understand the origin and development of a professional firm culture in a particular setting. Moreover, the influence of audit professionalism, based on Kerr *et al.* (1977), sheds light on the importance of understanding institutional logics emanating from the Indonesian context. As illustrated in each section, audit professionalism is affected by the combination of the four institutionalised norms and beliefs. The four proposed institutions and the nine categories of cultural symbols together create a matrix of norms and beliefs. These reveal cultural symbols and material practices that are not comprehensively examined in Western literature, but are important in the Indonesian context.

The study also offers a new perspective of methodological approach in ethnography. In order to understand values and norms of an organisation, one must appreciate the behavioural aspect of an individual, and their environment. The application of an indigenous perspective offers an in depth understanding of a particular culture that may not be revealed from a non-indigenous scholar. Thus, an emic point of view is considered as essential in order to understand 'how people think, categorise, and perceive the world', combined with an analysis of such behaviours from an indigenous point of view, which offers an enriched insight of an organisational culture.

### 10.3. Research Contribution

The research contributions of this study include the theoretical and practical. The theoretical contribution of this study emphasises the development of Indonesian institutional fields, particularly in audit firms, while its practical contribution will be to the ongoing improvement of audit standards in Indonesia.

#### 10.3.1. Theoretical Contribution

This study offers an insight in scrutinising organisational culture in a particular country. Firstly, the study contributes four institutional settings in the Indonesian context, and illustrates the reality of both external and internal factors which can influence structural or cultural changes in Indonesian accounting firms. Moreover, this study proposes a new perspective to institutional theory. The finding suggests that norms and values of a particular country can contribute positively to the shaping of an institution, which consequently influences the behaviour of actors. The unique multi-ethnic setting, such as Indonesia offers, proved to have successfully manifested itself clearly within such institutions, and the mixture of such groups enables the researcher to develop institutional logics that are embedded in an organisation.

Secondly, the professionalism dimension offered by Kerr *et al.* (1977) has given a holistic perspective of professional accounting. That dimension provides not only the perception of independence and ethical behaviours but also identification and commitment in the audit practices. Moreover, the application of Kerr *et al.* theory can further explicate the audit behaviours in Indonesia in a careful and detailed approach. Thus, this study contributes to the an appreciation of the extent to which audit professionalism is amenable to qualitative research.

And lastly, the four institutional frameworks, as well as the dimensions of professionalism, could be considered as a novel combination in organisational and accounting literature, with a robust qualitative approach, which enables a fresh examination of organisational culture in an Indonesian accounting firm. For example, this study has found that *kekeluargaan* may well be a salient norm and institution in professionalism studies. It is expected that further studies in the Indonesian context can accommodate this norm as an important aspect in studying Indonesian accounting phenomena. Hence, in order to investigate a particular country such as Indonesia, enriched with various ethnicities, religious, and backgrounds, one must consider the application of interpretive approaches. It enabled this researcher to reveal multiple phenomena that was not found in previous studies, especially mainstream accounting research.

### ***10.3.2. Professional Contribution***

The study found that auditors have had little support from the Indonesian Accounting Association in maintaining audit professionalism. However, the study also identifies and suggests ways in which the Association can strengthen its role for its members. First, it is suggested that the Association acquires sufficient expertise in accounting technology. This would ensure that the latest information on accounting and auditing systems, such as IFRS, can be updated. Second, enforcing sanctions and monitoring regulations. This action can motivate accountants to become (and remain) auditors: it provides assurance and protection in auditing. It is recommended that the Associations become more active in monitoring their members' activities, as well as promoting similar opportunities in the Big-4 as well as the mid-tier and smallest firms. At present, there has been no effective coordination between the Associations and regulatory agencies and government institutions, in producing appropriate regulation.

It is hoped that in the future, the Indonesian government produces consistent legislation and no overlapping scope of each part of the legislation. The existing criminal sanctions can be a motivation for auditors to be more careful in performing audit tasks for clients; furthermore it may reduce the number of undisciplined auditors, who do not comply with the audit standards. It is also hoped that the national audit standards, as well as accounting standards, can reach a 'mature' level and become an international standardised model for all Indonesian auditors. They will be the 'legal' standard applied across the nation.

## **10.4. Future Directions**

There are some suggestions for future research into audit and accounting professionalism. In order to enrich the conception of Indonesian institutions and norms in accounting firms, this study could be compared with other dimensions and settings. During the process of reflecting on the data, it was apparent there were many more research questions which could be studied. Nonetheless, there was the need to retain the scope of this thesis to the original research question. Hence, other future research outputs will be possible, drawing on the data collected. There will be possibilities of comparing these findings with other Big-4 firms, between divisions within the same accounting firm, and between headquarters in Jakarta and branches outside Jakarta.

One avenue to be considered is that regions outside Jakarta and offshore of Java Island may have different norms and values compared to those of living in the metropolitan areas. By



comparing them, it is expected to enrich such analysis with more detailed explanations and comprehensive findings.

Further analysis from a particularly Islamic perspective can be one important research avenue, in that here having the biggest Muslim population in the world, such a perspective may take into account its influences in business practices, as well as audit professional. Although the study found a relatively low influence of Islamic institutions on audit professionalism in KAP, there is a propensity that each individual in possession of certain religious belief might more strongly influence his/her behaviours in a different setting. Moreover, this study does not scrutinise conflicts or power domination which might have been motivated by a religious interest.

There is also the avenue as to how and why a 'generation discrepancy' influences recruitment and career development within the accounting firms. There are number of issues from older KAP staff: that of the Generation 'Y', a phenomenon of behaviours and characteristics of a younger generation born after the 80's, with norms that are markedly different from the older generation. Such evolution of norms and values can benefit from further scrutiny.

Since there is a scarcity of a qualitative approaches in this field of research, there is a significant opportunity for development in this area. This study promotes a qualitative study of ethnicities and cultures; and suggests a more comprehensive understanding is required as to the effect of cultural diversity in a nation with various ethnicities. It is also expected that an indigenous perspective will enable further revelation of norms and values that may not have been appreciated by Western scholars. An extended participating, observational and longitudinal study across firm divisions would generate more diverse responses than interviewing only auditors.

## **10.5. Limitations**

There are some limitations to this study. Firstly, since previous studies concerning audit professionalism were conducted with variously more quantitative approaches, this study has no previous qualitative model of audit professionalism in Indonesia with which to compare these findings. However, this study provides an introduction to the use of the qualitative approach for future studies of the audit profession in Indonesia.

Secondly, due to limitations and difficulty of access to the interviewees, this study has been cross-sectional in the nature of collecting data and so has not been able to identify or trace the

auditors' consistency in their actions with their perceptions as provided in the interviews. Institutional logic may be dynamic chronologically, and there was little possibility to document any chronological changes or chronological depth in the allocated time of research within KAP.

Thirdly, only one researcher was involved in this project and all interviews were conducted and transcribed in Indonesian. As such, these could not be reviewed by the Supervisors, and there is a possibility that translation to English might not truly reflect all the subtle varieties of meanings by an Indonesian.

And lastly, there is a chance that some respondents were not genuinely expressing their thoughts and feelings towards their professionalism and the firm, due to strict confidentiality of the firm. Although the respondents were generous in sharing their experiences, there were times where they appeared to have to withhold some issues related to the firm. As described in the opening chapter, the two issues underpinning this thesis were: can we develop an appropriate approach to unravel the contextual behaviour of accountants, and how can we fill a 'cultural gap' in discussing organisational culture in Indonesia. Even with the above limitations, this thesis offers some useful steps in the right direction.

### **10.6. Epilogue: a personal reflection on the research journey**

A journey which I will remember. At first, in answering the fundamental and theoretical issues in defining culture, I am not quite sure what/whose theories I will incorporate. I think I need to explain my 'journey' up till this stage, which was of itself quite interesting. During my first proposal, I came across with numerous models, such as Van Muijjen (Focus Questionnaires), Hofstede-Gray's model and its derivatives, and then reaching the current model adopted (Smircich, Schein, Allaire & Firsirotu). As I was studying more deeply into the anthropological view with key anthropologists, such as Geertz, Keesing, Murdock, and Schneider, I began to envisage that a fundamental theory of culture for this study would lie within the foundation provided by these scholars. It required me to refine the structure, from theoretical approaches derived from the organizational culture with a management perspective. To my surprise, my further understandings about the research area then moved from being based on anthropological scholarship to the sociological approach of institutional theories. Turning to DiMaggio and Powell, Friedland and Alford, and Thornton and Ocasio, were one of the most challenging parts for me, to shift across such a wide scholarship. The interesting part is that

these complement each other in determining cultural definitions and within these, describing human behaviours. I enjoyed reading both sides, building the fundamental theoretical basis.

The research methods, such as collecting data from interviews and observation, were more challenging than I had earlier anticipated. Probably the part in which I most ‘suffered’ was when I had to interpret the transcriptions, and then building ‘themes’ of analysis. Creating themes from an emic point of view required a very thorough understanding, not only from the theoretical perspective of anthropology and sociology, but also an understanding of the local norms existing in the environment. Being of Javanese descent, I am fully aware that my learning environment and understandings are integrated with rich Javanese traditions and viewpoints. It may be my ‘duty’ to introduce such understandings that might not be perceived by someone other than a Javanese. Thus, the indigenous perspective was a journey to discover the ‘unknown’. It is as if I am moving towards some ‘place’ I have not visited; and I cannot stop until I found myself a peaceful shore, but with support of the international community of scholars this offers a promising lifetime of enquiry and reflection.

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# Appendices

No	Presidensial Era	Year of Presidency	Political and Economic Situation	Regulation in Accounting Profession Issued	Implication to Accounting Professionalisation
1	Sukarno	1945 - 1967	Poor economic condition and political instability	UU No. 34 / 1954	The first Indonesian Accounting law
			The emigration of Dutch Accounting Firms (1958)	State News No. 24 / 1959	The establishment of Ikatan Akuntan Indonesia (The Indonesian Accounting Association)
			Nationalisation of Dutch-Owned Enterprises (1958)		
2	Suharto	1967 - 1998	Military coup from Sukarno's regime into Suharto's government		
			Economic stabilisation	UU No. 1 / 1967 - Foreign Investment Law	Permission for local accounting firm to establish a joint partnership with a foreign accounting firm
			Market liberalisation and Foreign investment capital inflow		Unequal treatments between the foreign and local auditors
			Aid from IMF and the World Bank		
				SK Menkeu No. 76 / 1971	Reciprocity principle and knowledge-transfer from foreign accounting firms
			Indonesian oil price boom		Foreign accounting firm to establish correspondent relationship to local firm
			Social sentiment against foreign investment	SK Menkeu No. 1681 / 1976	Repermit joint partnerships
			Capital market booming	SK Mendikbud No. 15 / 1980	All accounting graduates must enter Nasional Accounting Test (UNA) to achieve registered accountants
				SK Menkeu No. 763/KMK.001/1986	Accounting firm law: regulating accounting firm's field of work, procedures and requirements to obtain a permit of accounting firm; sanctions that can be imposed
	Keppres No. 53 / 1990	A legal basis for accountancy profession to support Indonesia's capital market			
	UU PT No. 1 / 1995	Limited Companies Act			
	SK Menkeu No. 43/KMK.017/1997	Licensing requirements, foreign accountants and accounting firms, supervision of accounting firms, and certified public accountants examination			
3	B.J. Habibie	1998 - 1999	Asian crisis, the fall of Suharto's New order regime Transitional presidency		
4	Abdulrahman Wahid	1999 - 2001	Economic restructuring Cabinet and Military reforms Recognition of Chinese new year	Keputusan Mendiknas No. 179/u/2001	Universities are entitled to held Accounting Profession formal education and training
5	Megawati Sukarnoputri	2001 - 2004	2002 Bali bombing Indonesia managed to recover from 1998 crisis; withdrawn from the IMF in 2003	Keputusan Menkeu No. 423/KMK.06/2002	The monitoring, regulation, and supervision of Public Accountants and professional Accounting Firm to improve the national economy and the protection to public interest
6	Susilo Bambang Yudhoyono	2004 - 2009	Indonesia became a G-20 member		
			Prioritise in Corruption, Collusion, and Nepotism misconducts	Peraturan Menkeu No. 17/PMK.01/2008	Limitation of the Provision of Services Firm from five consecutive years to 6 consecutive years
		2009 - 2014	Indonesian economic growth over 6%	UU KAP no. 5 / 2011	Criminal sanction exposed to auditors
					Foreign accounting firm can establish its office without any local affiliation
			Peraturan Pemerintah No. 84/2012	Government regulation on the Committee of public accounting firms	
7	Joko Widodo	2014 - present			

**Table A1: Indonesian Regulation related to the Accounting Profession**

Year	Accounting Firm	Nation	Operated in/local affiliation
1918	Frese & Hogeweg	Dutch	Jakarta
1920	H. J. Voorns	Dutch	Surabaya
1934	Frese & Hogeweg	Dutch	Jakarta, Bandung, Medan, Semarang, Surabaya
1935	E. F. Jahn	Dutch	Jakarta
1938	H. Grevers	Dutch	Malang
1940	Frese & Hogeweg	Dutch	Jakarta, Bandung, Medang, Semarang, Surabaya, Palembang
1941	Mej. G. Segall	Dutch	Surabaya
1945	<i>Indonesian independence</i>		
1971	Arthur Young	UK	Santoso Harsokusumo
1971	Sycip, Gorres & Velayo	The Philippines	Utomo Jososudirjo
1971	Torquand Young	UK	Go Si Tiem
1971	Price Waterhouse	US	Tan Eng Oen
1971	Peat Marwick Mitchell & Co	US	Soedjendro & Co (Later by Sudomo & Co)
1971	Coopers & Lybrand	US	Suparman
1974	Klijnveld, Kraijenhof & Co	Dutch	Go Si Tiem
1975	Touche Ross International	UK	Hendra Darmawan & Co

**Table A2: List of Accounting firms in Indonesia**

**Questions were selected from the following:**

**Background:**

1. Could you tell me about yourself?
2. As Indonesian, how do you see yourself in this company?
  - a. What cultural values are important to you?
  - b. What characterises Indonesian ways of doing business?
  - c. In this firm, who do you think is creating the cultural environment?

**General Issues:**

1. Business relationship
  - a. How do you explain the business environment in Deloitte's audit division?
  - b. Do you think there is a different approach in dealing/handling audit between local and international firms?
2. Teamwork
  - a. How do you work with your teammates and supervisors?
  - b. Who you prefer to work with (from ethnic, religious, education backgrounds)?
3. Changes in organisation
  - a. How often are the staff recruitment and turnover events?
  - b. Do you see any changes in terms of professionalism and organisational culture between now and the last 10 or 20 years of KAP?

**Professionalism:**

1. Definition
  - a. How would you describe the concept of professionalism?
  - b. How do you justify your professionalism and your target?
  - c. How do you comply with the Audit standards?
2. Training & Knowledge
  - a. How do you view the quality of Indonesian accountants compared with other overseas born or graduate accountants?
  - b. What do you think about Certification from accounting bodies? Do you think this could improve your competence?
3. Code of conducts vs cultural context (High vs Low cultural context)
  - a. What do you feel that accounting professionalism can/cannot be applied in the Indonesian context?
  - b. Can you suggest any specific aspects of Indonesian culture, history or current condition that may impact on accounting professionalism?

**Table A3: Interview questions used as an aide-memoire by the researcher.**

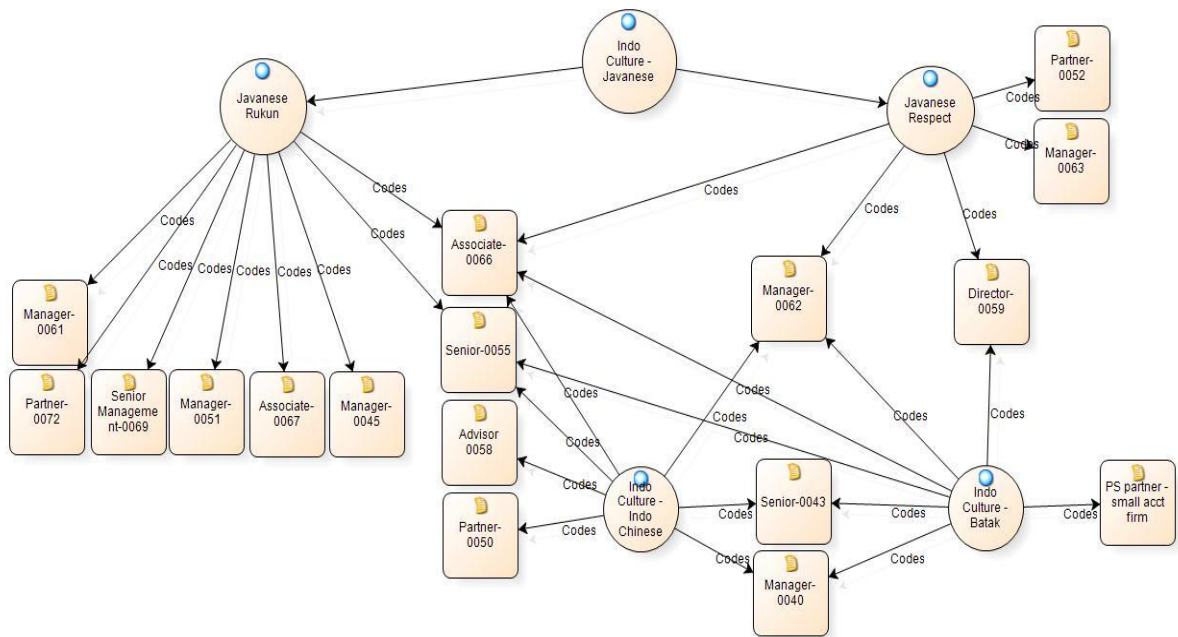


Figure A1: NVivo Analysis on Indonesian institutions

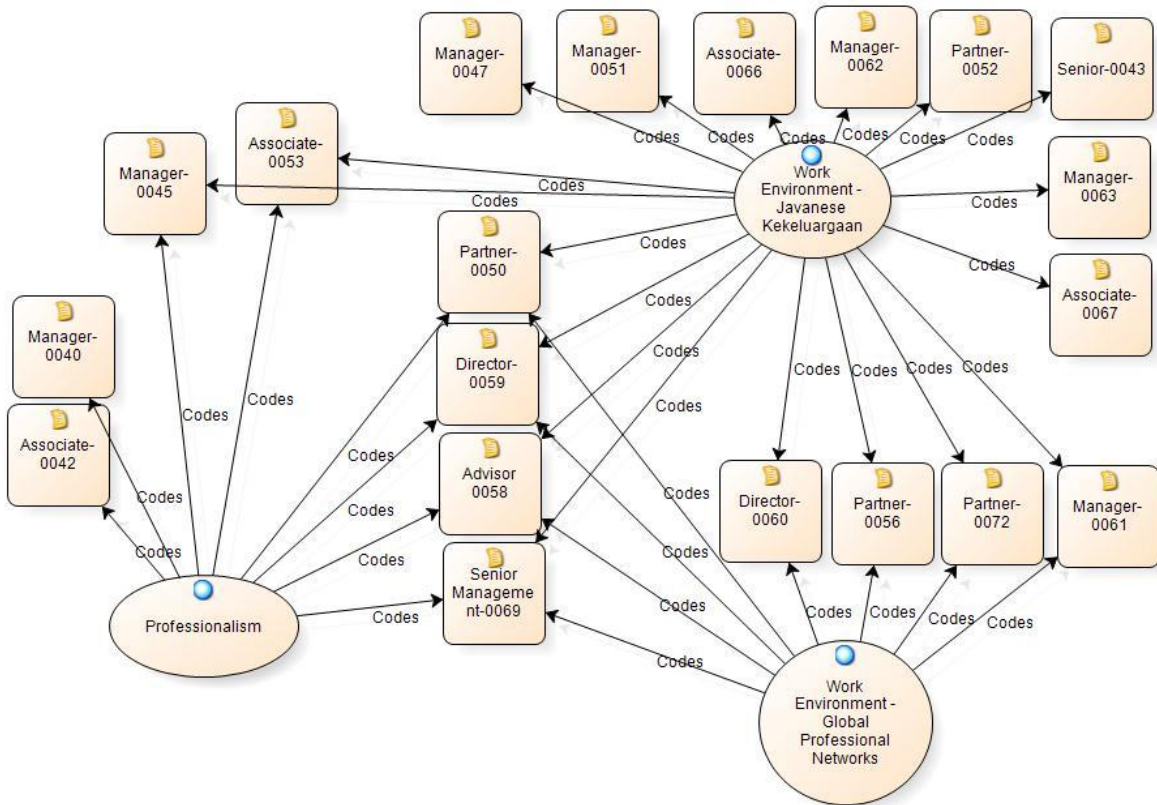
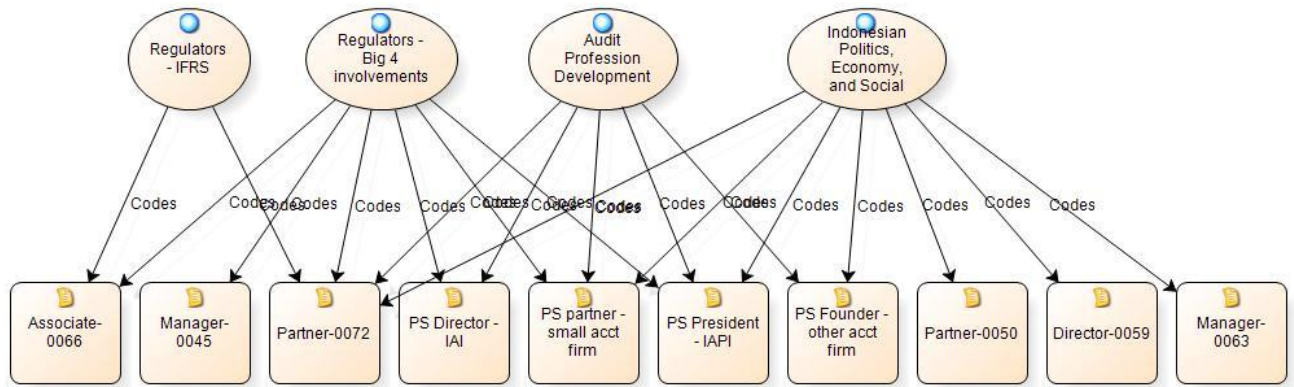
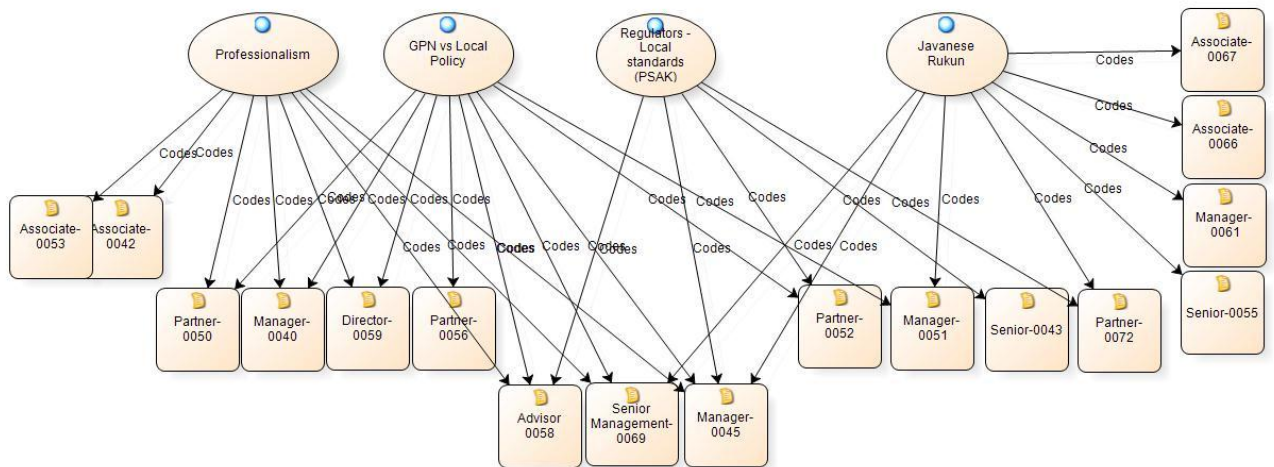


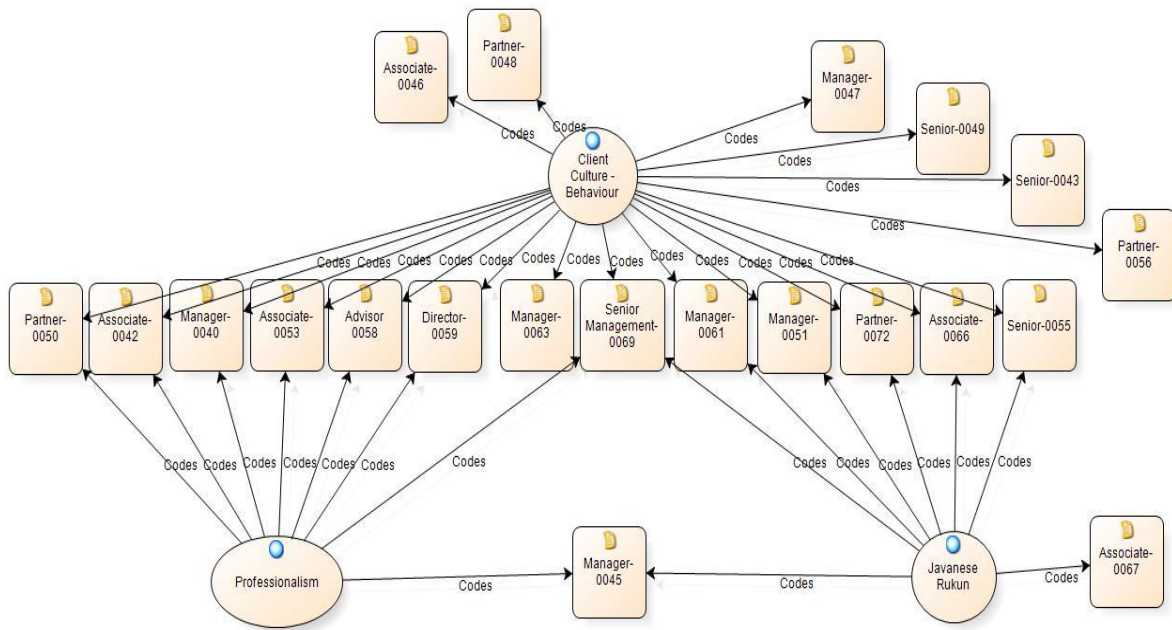
Figure A2: NVivo analysis on Javanese *Keluargaan*



**Figure A3: NVivo Analysis on Indonesian Politics and Economy**



**Figure A4: NVivo Analysis on Accounting Professionalism**



**Figure A5. NVivo Analysis on Client Behaviours**