The Influence of Contextual Factors on Professional Accountants' Judgments in Indonesia

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Table of Contents

Appendices

List of Figures

List of Tables

List of Terms and Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
Adat	indigenous values and customs
ADB	Asian Development Bank
AJE	Adjusting Journal Entry
AOSSG	Asian-Oceanian Standard-Setters Group
Bapepam-LK	*Badan Pengawas Pasar Modal dan Lembaga Keuangan* (The Capital Market and Financial Institutions Supervisory Agency)
BI	Bank of Indonesia, the Central Bank of Indonesia
BPK	*Badan Pemeriksa Keuangan* (Supreme Audit)
BPKP	*Badan Pengawas Keuangan dan Pembangunan* (Development and Financial Supervisory Agency, a government audit supervisor body that report directly the president).
BPS	*Badan Pusat Statistik* (The Central Statistics Agency)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CML	Capital Market Law
DSAK	*Dewan Standar Akuntansi Keuangan* (Indonesian Financial Accounting Standards Board)
DSAS	*Dewan Standar Akuntansi Syariah* (Indonesian *Sharia* Accounting Standards Board)
ETAP	*Entitas Tanpa Akuntabilitas Publik* (entity without public accountability, similar to Small-Medium Enterprises)
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FOBs	Family-Owned Businesses
GAAP	Generally Accepted Accounting Principles
G20	The group of Finance Ministers and Central Bank Governors from 20 major economies, including Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union (EU)
IAI	*Ikatan Akuntan Indonesia* (Indonesian Institute of Accountants)
IAPI	*Institut Akuntan Publik Indonesia* (Indonesian Institute of Certified Public Accountants)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IAASB	The International Auditing and Assurance Standards Board

IAESB	The International Accounting Education Standards Board
IASC	International Accounting Standards Committee, predecessor of IASB
IASC	International Accounting Standards Committee Foundation
ICR	Islamic Corporate Reports
IDX	Indonesian Stock Exchange (BEI—Bursa Efek Indonesia)
IES	International Education Standards
IESBA	The International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFIs	Islamic Financial Institutions
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
Ijara	lease financing in Islamic banking
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
ISA	International Standards on Auditing
ISFS	International *Sharia* Financial Standards
Istisna	purchase order in Islamic banking
KAP	*Kantor Akuntan Publik* (Public Accounting Firm)
KDPPLK	*Kerangka Dasar Penyusunan dan Penyajian Laporan Keuangan* (Famework for the Preparation and Presentation of Financial Statements for Islamic Banks in Indonesia)
KPK	*Komisi Pemberantasan Korupsi* (Corruption Eradication Committee)
KKN	*Korupsi, Kolusi dan Nepotisme* (Corruption, Collusion and Nepotism)
LKS	*Lembaga Keuangan Syariah* (*Sharia*/ Islamic Financial Institutions)
LLC	Limited Liability Company
MEP	Member of European Parliament
MNE	Multinational Enterprises
MOF	Ministry of Finance (Kementrian Keuangan/KemenKeu)
MSMEs	Micro, Small, and Medium Enterprises
Mudaraba	profit sharing in Islamic banking
Murabaha	trade with mark up or cost-plus sale in Islamic banking
Musharaka	profit and loss sharing in Islamic banking
MUI	*Majelis Ulama Indonesia* (Indonesian Islamic Scholar Board)
OJK	*Otoritas Jasa Keuangan* (Financial Service Authority)
OECD	Organization for Economic Cooperation and Development
PLS	Profit and Loss Sharing

PSAK	*Pernyataan Standar Akuntansi Keuangan* (Indonesian Statements of Financial Accounting Standards)
PTKP	*Pendapatan Tidak Kena Pajak* (Tax Exempted Income)
Salam	advance purchase in Islamic banking
SEC	Security and exchange Commission of US
SMEs	Small or Medium-scale Enterprises
SOEs	State-Owned Enterprises
SFAC	Statements of Financial Accounting Concepts
SFAS	Statements of Financial Accounting Standards
Sharia	Islamic law
Sukuk	Islamic bonds
SPAP	*Standar Profesional Akuntan Publik* (Indonesian Public Accountant Professional Standards)
The Code	IFAC's Code of Ethics for Professional Accountants
UN	United Nations
US	United States of America
WB	The World Bank
WTO	World Trade Organization

Abstract

The forces of globalization and the convergence of financial reporting with the adoption of global accounting standards have attracted increasing interest on the influence of social, political and economic factors including culture on accounting. Although prior research has examined various countries' experiences with global convergence, only few studies have rigorously examined issues related to globalization, convergence and accounting practices in non-Anglo-American context especially in Islamic countries. This is surprising since it is increasingly acknowledged that Islam poses challenges to globalization and convergence of financial reporting. This is especially related to the requirement for compliance with Islamic law (*Sharia*) in religious (*ibadah*) and secular aspects (*muamalat*) of life including commercial activities and, indeed, financial reporting. Moreover, there is a growing movement towards "Islamic convergence" in the recent years, which is primarily driven by the significant growth of Islamic Financial Institutions (IFIs) and the issuance of accounting, auditing and *Sharia* standards for IFIs by international standards setting body, namely, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The Islamic convergence is recognized as an effort to resist globalization that has been severely criticized as the promotion of Anglo-American dominance and values which are inconsistent with Islam and *Sharia*.

As such, using Indonesia as a case study, this PhD thesis aims to contribute to the literature by critically examining the influence of relevant contextual factors including Islam and dominant indigenous values (*adat*) on various issues related to global convergence and accountants' professional judgments. Indonesia provides an appropriate context to examine various issues related to global convergence and Islam. Indonesia is the largest Islamic country in the world where Islam is the religion of 87 percent of its population of 253 million. Indonesia has joined the convergence movement with the adoption of the Code, IFRS and ISA in 2010, 2012 and 2013, respectively. Indonesia has also applied a separate set of *Sharia* Accounting Standards for financial reporting of IFIs in the country. Both global convergence and Islamic convergence of financial reporting are simultaneously reinforced and applied in the context of Indonesia.

Moreover, Indonesia is also characterized by ethnic diversity with over 300 ethnic groups such as the Javanese, Minangkabau, Sundanese, Batak, Bugis and Banjar with the Javanese comprising almost half of the population. These ethnic groups are distinguished

by language, custom and social organizations including gender role, known as *adat*. These ethnic groups also largely vary in respect of the Islamic influence on their *adat*. Given the diversity, the context of Indonesia provides an appropriate setting for examining various issues related to Islam, judgments and gender ("*al-jins al-bashari*"). For example, although the Javanese are dominated by Islam, the Islamic beliefs and practices of nearly two-thirds of the ethnic Javanese are so diluted with Hinduism and animism that they practically form a separate religion. By contrast, the matrilineal Minangkabau have been regarded as devout Muslims. Moreover, the Javanese gender-roles focus on hierarchy and "women's nature" (*Kodrat Wanita*) which indicates male domination of the outside world of politics and work with females confined to domestic activities, obedience and passiveness. Therefore, the idea of gender equality was largely alien in among the Javanese. In contrast, the Minangkabau emphasis is on women as central focus of inheritance and kinship. Women enjoy respect and high status, and participate as actively in decision making as their male counterparts, and thus the idea of gender equality is more readily accepted in Minangkabau. The different views on gender roles are more likely to cause differences in gender-based judgments between these different ethnic groups. As such, the context of Indonesia provides challenges on the simplistic assumption of homogeneity in values and judgments of accountants across Islamic countries that have largely dominated literature in Islamic context.

This PhD thesis takes a format of "thesis by publication," and includes an introduction (Chapter 1), three separate papers on various aspects of convergence in Indonesia (Chapters 2 – 4), and a conclusion (Chapter 5). The three papers completed for this thesis are as follows. The first paper is entitled, "Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia." This paper develops a holistic theoretical framework incorporating external and domestic pressures with a focus on Islam, the forces of globalization, conflict of interest and power dependence, as well as Indonesia's internal environment. Using qualitative research approach, semi-structured interviews with eight senior accounting academics and sixteen senior professional accountants in Indonesia were conducted to gain richer insights into accounting development and practice in relation to global convergence in Indonesia. The findings of this paper show that external pressures (*tekanan dari luar*) such as forces of globalization as well as conflict of interest and power dependence were influential in the rush toward global convergence in Indonesia. Moreover, Islam poses challenges towards global convergence in Indonesia with the use of *Sharia* Accounting Standards for Islamic banks.

Furthermore, despite the governmental support on convergence, powerful actors in Indonesia who feel threatened by the convergence and its increasing promotion of transparency and fair value measurement, often use their power to protect their interest by intervening and manipulating the application of global accounting standards. This is reinforced by Javanese emphasis on "harmony within hierarchy" (*rukun*) and conflict avoidance, and thus compromise is largely used to resolve conflicts between global accounting standards and important interest leading to "de jure" but not necessarily "de facto" convergence.

The second paper is entitled, "Professional Accountants' Preferences for the Application of Principles-Based versus Rules-Based Standards in Indonesia." This paper develops its theoretical framework on the contextual influences on Indonesian professional accountants' judgments with respect of preferences drawing from historical, political, sociological and anthropological literature. Especially, this paper formulates a hypothesis that professional accountants in Indonesia are more likely to demonstrate a greater preference for the application of rules-based standards compared to that of principles-based standards. Moreover, focusing on an important and relevant personality variable of Construal of Self, this paper formulates another hypothesis that professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for rules-based standards. Data for this paper were collected using survey questionnaires to professional accountants in Indonesia to test the hypotheses. Furthermore, in order to show limitations of strong reliance on hypothetico-deductive research framework, semi-structured interviews were also carried out to 24 senior accounting academics and professional accountants in Indonesia regarding their responses in relation to the promotion of principles-based standards, as a part of a larger research project on convergence. Comparison of results from quantitative and qualitative research approaches provides evidence for the limitations of the hypothetico-deductive framework. Especially, the findings of this paper show that strong reliance on the hypothetico-deductive framework may lead to ambiguous findings and conclusion. The overall findings of this paper provide evidence to reject the global standards-setters' simplistic assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards.

Finally, the third paper is entitled, "Gender-Based Auditors' Judgments in Indonesia." The main objective of this paper is to reject the simplistic assumption of homogeneity in values and judgments of accountants within and across Islamic countries by focusing on significant within-country differences in judgments between two important ethnic groups in Indonesia, namely, Javanese and Minangkabau. Specifically, this final paper examines the influence of auditor-gender and client-gender on judgments of accounting students and professional accountants of Javanese and Minangkabau regarding client-provided explanations on a potentially obsolete inventory balance in audit. Data were collected through a survey questionnaire administered to professional accountants and final year undergraduate accounting students in Indonesia. Findings of this paper show that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. In contrast, the findings show no differences in judgments between Minangkabau male and female students. Thus, findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. This paper also focuses on the competing influence of organizational culture of accounting firms in examining professional accountants' judgments. Especially, the findings show that there is no difference in relation to the influence of client-provided explanations on male and female professional accountants of Javanese as well as Minangkabau. Thus, the findings show that the strength of organizational culture in accounting firms override differences in gender-based judgments among professional accountants.

The findings of the three papers of this thesis provide valuable insights into various issues associated with global convergence and accountants' professional judgments in Indonesia. The findings of this thesis show the importance to incorporate relevant contextual factors in providing richer and deeper understandings of global convergence of financial reporting in a given country. This thesis also provides useful insights into tensions between global convergence and Islamic convergence of financial reporting. This thesis contributes to the literature on international accounting and global convergence by examining issues related to convergence in Indonesia from various perspectives and by providing holistic insights incorporating multidisciplinary literature from politics, anthropology, sociology and psychology. Findings of this thesis have implications for accounting research and education, as well as multinational enterprises in general and accounting firms in particular. The findings have implications for the global convergence of accounting and auditing standards, especially in countries where Islam has a dominant role in the society. Specifically, the findings provide rich insights into the application of global convergence in unique context of an Islamic country, namely, Indonesia, which is crucial for our understanding of the effects and consequences of global convergence. Moreover, the findings provide additional understanding on opposition and acceptance of convergence and global accounting standards in Indonesia. Given the issues associated with convergence in Indonesia, the findings on this thesis are of relevant to stakeholders in countries that plan to join the convergence with adopting the global accounting standards. The theoretical framework and findings provided from Indonesian perspectives in this thesis may also be taken into account by national and international standards-setters when deciding on potential strategies and changes to enhance the acceptance of the global accounting standards.

Statement of Candidate

The work presented in this thesis has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilized is acknowledged in the thesis. Ethics Committee approval has been obtained (Reference Number: Ref: 5201100593 (D) and 5201200857 (D)).

Sany Dwita

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Chapter 1: Overview of Thesis

1.1. Introduction

This thesis critically examines various aspects of the global convergence of financial reporting in Indonesia by incorporating the influence of social, political and economic factors on accounting principles and practices. Whittington (2005, p. 133) provides an apt definition of convergence as follows:

> *'Convergence' means reducing international differences in accounting standards by selecting the best practice currently available, or if none available, by developing new standards in partnership with national standards setters. The convergence process applies to all national regimes and is intended to lead to the adoption of the best practice currently available.*

For the purpose of this thesis, the global convergence of financial reporting refers to the adoption of global accounting standards and/or guidelines, namely, International Financial Reporting Standards (IFRS), International Standards of Auditing (ISA), the Code of Ethics for Professional Accountants (the Code) and International Education Standards (IES) as national standards and/or guidelines in various countries around the world. This thesis contributes to international accounting literature by examining various issues related to convergence including the promotion of principles-based standards and professional accountants' judgments that may hinder the achievement of the International Accounting Standards Boards' (IASB) main objective, namely, "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards based on clearly articulated principles" (IASB, 2014a). This thesis focus on important and controversial issues related to convergence, namely, accounting development and practice, the preferences for principles-based standards and accountants' professional judgments (Chand et al., 2011; Chand & Patel, 2008, 2011; Chand et al., 2010; Dimitropoulos et al., 2013; Ding et al., 2007; Heidhues & Patel, 2011, 2012a; Kabir et al., 2010; Karampinis & Hevas, 2011; McAnally et al., 2010; Patel, 2004, 2006; Tsipouridou & Spathis, 2012; Tyrrall et al., 2007).

A large number of prior studies have examined global convergence by focusing on various issues such as the pressures of globalization (Arnold, 2012; Gallhofer & Haslam, 2006; Gallhofer & Haslam, 2007), the role of international agencies such as the World Bank (Ackerman et al., 2009; Annisette, 2004; Neu & Ocampo, 2007; Rahaman & Neu, 2003;

Sikka & Willmott, 1995), the application of principles based-standards (Agoglia et al., 2011; Collins et al., 2012; McEnroe & Sullivan, 2013), contextual influences on convergence in a country (Chand & Patel, 2008; Dimitropoulos et al., 2013; Heidhues & Patel, 2011; Hellmann et al., 2010; Hellmann et al., 2013; Karampinis & Hevas, 2011, 2013; Tsipouridou & Spathis, 2012), and judgments of professional accountants including cross-cultural differences (Patel, 2004; Doupnik & Riccio, 2006; Patel, 2007; Chand & Patel, 2008; Chand et al., 2010; Kabir et al., 2010; Chand et al., 2011; Chand & Patel, 2011; Patel & Milanta, 2011). However, while these prior studies have contributed to the literature, only a few have rigorously examined issues related to globalization and convergence in non-Anglo-American contexts, particularly in Islamic countries (Kamla, 2012, p. 189; Kamla & Rammal, 2013). This is surprising since it is increasingly acknowledged that the requirement for adherence to Islamic law (*Sharia*) poses challenges to the globalization and convergence of financial reporting (Banerjee & Linstead, 2001; Hamid et al., 1993; Kamla & Rammal, 2013; Nurullah, 2008, p. 45). Moreover, movement toward "Islamic convergence" has grown in recent years, which is evidenced by the significant growth of Islamic Financial Institutions (IFIs) and the issuance of accounting, auditing and *Sharia* standards for IFIs by international standards setting body, namely, Accounting and Auditing Organization for Islamic Financial Institutions[1] (AAOIFI) (Hamid et al., 1993; Kamla & Rammal, 2013; Vinnicombe, 2010).

Using Indonesia as a case study, this thesis aims to contribute to the literature by critically examining the influence of relevant contextual factors including the influence of Islam and indigenous values on various issues related to convergence and professional accountants' judgments in Indonesia. Indonesia is the largest Islamic country in the world where Islamic followers comprise 87 percent of its population of 253 million (Central Inteligence Agency, 2014). Indonesia joined the convergence process taking a gradual transition approach in 2008 as a part of reforms conducted following the 1997 financial crisis (Indonesian Institute of Accountants, 2009; Indonesian Institute of Certified Public Accountans, 2012). Indonesia has adopted the Code and ISAs in 2010 and 2013, and claimed to have achieved full convergence with IFRSs in 2012. However, global convergence and professional accountants' judgments have not been rigorously examined in Indonesia. Moreover, Indonesia is also characterized by an ethnic diversity that provides a unique setting for examining various issues related to accounting judgments

[1] Additional details on Islamic convergence and Islamic Financial Institutions (IFIs) are presented in Chapter 2, p. 63-68.

and gender ("*al-jins al-bashari*"). Indonesia consists of over 300 ethnic groups such as the Javanese, Minangkabau, Sundanese, Batak, Bugis and Banjar with the Javanese comprising almost half of the population (Central Inteligence Agency, 2014; Liddle, 1996). These ethnic groups are distinguished by language, customs and social organizations, including gender role, which is commonly known as *adat*[2]. The term *adat* is originated from Arabic word meaning custom or habit. *Adat* includes customary laws and the unwritten traditional code prescribing accepted customs, beliefs, practices and institutions regulating social, political and economic inherited by communities rather than prescribed by the state (Blackwood, 2001, p. 126; Henley & Davidson, 2008, p. 817). *Adat* also represents a set of abstract but powerful ideas regarding what an ideal society should be like focusing on authenticity, community, harmony, order and justice (Henley & Davidson, 2008, p. 817).

The ethnic groups in Indonesia are also largely different in the respects of Islamic influence on their *adat* (Peacock, 1973). For example, although the Javanese are dominated by Islam, the Islamic beliefs of around two-thirds of the ethnic Javanese are strongly influenced by Hinduism and animism that they basically form a separate religion (Peacock, 1973; Liddle, 1996). In the Javanese *adat*, for example, inheritance is bilateral, although females may receive less than their brothers (Geertz, 1961). In contrast, the Minangkabau, who have been regarded as devout Islamic followers, base their *adat* on matrilineal kinship whereby families, lineages and inheritance are oriented around the females[3] (Abdullah, 1966; Blackwood, 2000; Peacock, 1973). Thus, Indonesia provides an appropriate setting to raise critics of narrowly-focused approaches such as simplistic assumption of homogeneity in values and judgments of accountants across Islamic countries that have largely dominated literature in the Islamic context (see, Askary & Jackling, 2004b; Gambling & Karim, 1986; Hamid et al., 1993; Sulaiman & Willett, 2003).

This thesis contributes to the literature by incorporating the influence of relevant contextual factors including the influence of Islam and dominant indigenous values (*adat*) in critically examining convergence in this unique context. The approach invoked in this thesis is in contrast to most previous studies in Islamic countries which largely overlooked

[2] In 19th century, the Dutch colonial introduced the term *adat* to distinguish customary law from Islamic *Sharia*. During the colonial time, *adat* law was largely enforced in order to distance the indigenous Indonesians from Islam (Spyer, 1996).

[3] Additional explanations on gender roles are presented in Chapter 4, p. 213-223.

incorporating these important and relevant factors in their examinations (for example, Al-Shammari et al., 2008; Arzova & Kidwell, 2004; Askary & Jackling, 2004a; Hassan & Christopher, 2005; O'Leary & Mohamad, 2006; Saat et al., 2010; Srnka et al., 2007). This thesis makes further contributions by adopting a holistic approach and invoking literature from multiple areas and disciplines such as history, politics, sociology, anthropology and psychology. This thesis' emphasis on multidisciplinary perspectives extends the accounting literature by going beyond the narrowly-focused approaches such as simple quantification and broad categorization which have largely dominated prior research in accounting. By so doing, this thesis shows that the adoption of a holistic approach and a broader perspective allows this research to offer a richer and deeper understanding on convergence in the unique context of a given country.

The three chapters included in this thesis examine convergence in Indonesia from multiple perspectives by providing in-depth insights into broader aspects and implications of globalization and convergence as well as critically examining specific issues such as the application of principles-based standards and accountants' professional judgments that are embedded in convergence. By emphasizing relevant contextual factors, namely, social, political and economic factors, this thesis provides deeper and sharper insights into global convergence by showing potential limitations, challenges and constraints to the acceptance and future development of convergence.

The remainder of this chapter is organized as follows. Section 1.2 provides background for this thesis by giving relevant insights into globalization and convergence of financial reporting. Section 1.3 provides the aim and objectives of this thesis and a summary of the three papers incorporated in it. Section 1.4 describes the research methodology used in this thesis. Finally, the contributions made by this thesis to the accounting literature are provided in Section 1.5.

1.2. Global Convergence: Background

In the last 30 years, the forces of globalization have accelerated, creating both opportunities for and challenges to global business practices including accounting. Globalization can be defined as "the process of social, political, economic, cultural and technological integration among countries around the world" (Luthans & Doh, 2009, p. 8). Globalization is distinctive from internationalization in that internationalization is the process of business crossing national and cultural borders, while globalization is the vision of creating one world unit, a single market entity (Luthans & Doh, 2009, p. 8). Evidence of globalization can be seen in the increased level of trade, capital flow and migration.

Especially related to accounting, the globalization of financial market has raised demands from multinational enterprises (MNE), stock exchanges, security regulators and international bodies such as the World Bank (WB) and G20 to minimize diversity and to harmonize accounting standards and practices across countries (Doupnik & Perera, 2012; Lehman, 2005; Whittington, 2005). Given these pressures, accounting professional bodies of ten countries, namely, Australia, Canada, France, Japan, Mexico, the Netherland, Ireland, the United Kingdom (UK), the United State (US) and West Germany established the International Accounting Standards Committee (IASC) in 1973 (Doupnik & Perera, 2012). The broad objective of the IASC is to formulate International Accounting Standards (IAS) to promote global harmonization of accounting. Harmonization is described as "the reduction of alternatives while retaining a degree of flexibility in accounting practices," which means allowing countries to have different standards as long as they do not contradict each other (Doupnik & Perera, 2012, p. 66). While increasing comparability of financial information by reducing differences in accounting standards and practices, global harmonization does not necessarily require the adoption of a single set of global accounting standards. This was evidenced by the IASC's harmonization efforts in the early 15 years of its operation. During the period, IASC's effort was generally regarded as a "lowest-common-denominator" approach, IASC issued 26 standards that allowed several options to accommodate existing accounting practices in various countries. For example, IAS 11 on Construction Contracts, which was issued in 1979, permitted companies to select between the percentage of completion method and the completed contract method (Doupnik & Perera, 2012, p. 71).

Another important international accounting body is the International Federation of Accountants (IFAC). IFAC was created in 1977 with the aim of developing coordination among international accountancy professions. Although IASC and IFAC are independent from all other bodies, a close connection was formed between them in 1983. The works of IFAC included developing international standards for auditing, ethics, education, and management accounting, involvement in education and teaching research, and the organization of an international congress every 4 or 5 years (Doupnik & Perera, 2012, p.

71; IFAC, 2014). In particular, IFAC develops International Standards on Auditing (ISA) through the International Auditing and Assurance Standards Board (IAASB), a Code of Ethics for Professional Accountants trough the International Ethics Standards Board for Accountants (IESBA), and International Education Standards (IES) through the International Accounting Education Standards Board (IAESB). To date, IFAC has 179 members and associates from 130 countries, representing approximately 2.5 million accountants in public practice, education, government service, industry and commerce (IFAC, 2014).

Given the limited success of its approach, in late 1980, IASC reached an agreement with the International Security Commission (IOSCO) whereby IASC agreed to improve its standards and IOSCO would consider recommending them to all their exchanges. Thus, since 1990, the approach of IASC changed with its increased efforts to develop standards that satisfy IOSCO and which can be endorsed for cross-listing purposes. The approach achieved its aim in 2000 when IOSCO endorsed IASC standards, particularly for use by foreign registrants (Doupnik & Perera, 2012, p. 72; Nobes et al., 2008, p. 93). The most significant success of IASC's effort was achieved when developing countries such as Nigeria, Malaysia and Singapore adopted IAS as their national standards with few if any amendments (Doupnik & Perera, 2009).

Despite the increasing acceptance of IAS, criticisms were raised on IASC's legitimacy in relation to constituent support, independence and technical expertise (Doupnik & Perera, 2012). For example, given that some of IASC board members work at international standards setting only part-time and were not necessarily selected because of their technical expertise, IASC faced criticisms that questioned its commitment to develop the highest possible quality standards (Doupnik & Perera, 2012, p. 74). Given the criticisms, IASC was restructured in 2001 into International Accounting Standards Boards (IASB) as an operating body of the International Accounting Standards Committee Foundation (IASCF). This is also accompanied by changes in the objective, as previously mentioned, "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards based on clearly articulated principles" (IASB, 2014a). The establishment of IASB marked the shift of focus from harmonization to convergence with the principle feature being the adoption of a single set of global accounting standards. IASB facilitates this convergence by developing "high quality" standards called International Financial Reporting Standards (IFRS) (IASB, 2014a).

The IASB is working with global and national standards-setters to achieve global convergence. For example, similar with IASC, IASB maintains close relationship with IFAC. IFAC approved IASB objectives of convergence and in 2003 required its member bodies to implement both IFAC standards as well as IFRS. Moreover, through the IAASB, IFAC has also issued new guidelines clarifying when financial statements are in full compliance with IFRS (Doupnik & Perera, 2012, p. 95).

The convergence efforts by IASB gained its momentum by the adoption of IFRS by member states of the European Union (EU) in 2005. Moreover, an important arrangement was reached with the powerful standard setter namely the US Financial Accounting Standards Board (FASB) with the finalization of Norwalk Agreement in 2002 in which both IASB and FASB agreed to eliminate as many differences as possible by 2005. As a follow up, a number of joint projects and specific milestones were decided in the Memorandum of Understanding in 2006 (FASB, 2014; IFRS Foundation, 2006). As a result, in 2007 the US Security and Exchange Committee (SEC) accepted IFRS standards by announcing that foreign companies listed on the New York Stock Exchange could file their financial reports based on IFRS (FASB, 2014). In 2008, the SEC had proposed a "road map" for the adoption of IFRS in the US that would have had US companies using international rules as soon as 2014 (IASB, 2014b).

It is important to note that concerns have been raised by stakeholders from other nations regarding the significant influence of the US through FASB on the development of IFRS. Specifically, criticisms have been raised about the increasing "Americanization" of convergence (Heidhues & Patel, 2012b). These concerns are driven by the release of IASB's exposure drafts, such as the exposure draft on fair value measurement in 2009, which practically are imitations of FASB standards (FASB, 2007; IASC Foundation, 2009). The joint effort of IASB and FASB in the development of a revised conceptual framework has also gained criticism, especially because the US has yet to adopt the global accounting standards as its national standards (Deegan, 2009, p. 185).

Despite the convergence efforts, the future adoption of convergence by the US remains uncertain. This uncertainty has increased since a recent report from the SEC's Office of the Chief Accountant in 2012 (Eyden, 2012). Instead of setting a timeline for convergence by the US, the report focused on potential issues faced by US companies in convergence. The report stated that there is a lack of strong support for convergence in the US and US Generally Accepted Accounting Principles (GAAP) are still considered superior to IFRS despite various quality improvements that have been carried out on IFRS (Economia, 2012). Moreover, the report questioned the timeliness of responses to widespread accounting issues by the IFRS Interpretations Committee. Importantly, the report suggested that the biggest obstacle to IFRS adoption for US public companies may be the funding of the IASB (Economia, 2012). The SEC report said that until 2008, the IFRS Foundation financed the IASB largely through voluntary contributions from a wide variety of participants across the world's capital markets (Economia, 2012). The concern with that model is that it leaves the IASB open to the perception that organizations that provide funding could try to influence accounting standards (Economia, 2012; Tysiac, 2012). These concerns were reinforced by criticism from Members of the European Parliament (MEPs) in relation to the IASB's poor governance structure, lack of transparency and "close link to the accounting industry" which, in turn, raised questions about its suitability in governing accounting standards (The Telegraph, 2014).

Criticisms have also been directed in relation to the standard-setters' strong reliance on the Anglo-American model in developing the global accounting standards. For example, the extensive use of fair value measurement in IFRS has been criticized as support for domination of Anglo-American countries in the political economy with their emphasis on financing sector, which is highly dependent on capital markets, rather than productive sector (Gallhofer & Haslam, 2007; Perry & Noelke, 2006). Prior research has raised questions concerning the relevance of global accounting standards to other contexts with different social, political and economic factors from those of Anglo-American countries (Heidhues & Patel, 2012c; Hellmann et al., 2010; Karampinis & Hevas, 2011; Tsipouridou & Spathis, 2012). The domination of Anglo-American countries and large accounting firms were strengthened by the increasing internationalization of the US and the UK multinational enterprises (MNE) (Cooper et al., 1998; Jang, 2005; Suddaby et al., 2007). In particular, it is suggested that the large accounting firms are capable of making nearly every influential international actors to deter oppositions from local actors and weaker states, and thus promote the firms' interests in capturing the market for accounting services (Caramanis, 2002).

Global convergence even has been severely criticized as another form of colonialism and imperialism by serving the interest of powerful capitalists mostly in Anglo-American and European countries, international agencies and multinational enterprises (MNE) by manipulating and exploiting programs and policies in various countries focusing on the promotion of interest-based capitalism and secularism by utilizing the rhetoric of modernization (Bakre, 2008; Dominelli & Hoogvelt, 1996; Kamla & Roberts, 2010; Sikka, 2001). It is globally promoted that there can be no alternative for a national society that wanted to be modern other than to embrace globalization and the market economy (Fukuyama, 2006). Indeed, empirical evidence shows that economic development through globalization, privatization and liberalization is the main motivation of emerging economies for the adoption of global accounting standards (Al-Akra et al., 2009; Albu et al., 2011; Alon, 2013; Dimitropoulos et al., 2013; Gallhofer et al., 2010; Karampinis & Hevas, 2011; Mashayekhi & Mashayekh, 2008; Mir & Rahaman, 2005; Prather-Kinsey, 2006; Saudagaran & Diga, 1997; Tyrrall et al., 2007).

At present, 128 countries around the globe have adopted the IFRS and 130 countries have committed to adopt ISA, the Code and IES (Deloitte Touche Tohmatsu Limited, 2013; IFAC, 2014). The increasing number of countries joining the global convergence has attracted researchers' interest in examining various countries' experiences with global convergence. Although prior research has reported increasing similarities between accounting standards around the world (Ampofo & Sellani, 2005; Joshi & Al-Basteki, 1999; Joshi et al., 2008), prior research has also provided evidence that the lack of suitability of the Anglo-American accounting model to other contexts raises issues about how convergence operates in a given country and, therefore, raises challenges to the international standards-setters' major objective of global comparability (Alp & Ustundag, 2009; Chand & Patel, 2008; Chand & White, 2007; Heidhues & Patel, 2012c; Hellmann et al., 2010; Joshi & Al-Basteki, 1999; Karampinis & Hevas, 2011, 2013; Tsipouridou & Spathis, 2012; Tyrrall et al., 2007).

Given the findings of prior research, it is important to differentiate between "de jure" and "de facto" convergence. "De jure" convergence refers to the adoption of one single set of global accounting standards while "de facto" convergence refers to the harmonization of accounting practices across countries. Importantly, as noted earlier, convergence by the adoption of global accounting standards ("de jure" convergence) may not necessarily results in convergence of accounting practices ("de facto" convergence) and, thus, in conflict with the global standards-setters' objective (Doupnik & Perera, 2012; Nobes et al., 2008, p. 75).

It is important to note that, to achieve their objective, global standards-setters have adopted principles-based standards which demand the application of "substance over form" approach and accountants' professional judgments in deciding economic substance of business transactions (Agoglia et al., 2011; Bennet et al., 2006; Bradbury & Schröder, 2011; Schipper, 2003). IFRS contains broad principles and uncertainty expressions that place more emphasize more on guiding professional judgments. For example, uncertainty expressions such as probable, remote, major part, substantially, control and significant influence, are often used to indicate levels of probability in prescribing recognition, measurement and disclosure of events and transactions in financial reports (Chand et al., 2011; Chand et al., 2010; Chand & White, 2006; Laswad & Mak, 1999)[4]. The application of global accounting standards which are largely dominated by uncertainty expressions as recognition and disclosure criteria requires extensive exercise of professional judgments of accountants (Doupnik & Riccio, 2006, p. 254). This again indicates the important of consistent judgments of accountants to achieve global comparability (Chand et al., 2010). Inconsistent judgments can have a crucial effect on a firms' reported accounting numbers and in turn decision making by users of these numbers (Chand et al., 2010; Hronsky & Houghton, 2001, p. 123). Importantly, the extensive use of uncertainty expressions shows that standards-setters simply assumed that professional accountants in all countries have preferences for principles-based standards in contrast to rules-based standards in interpreting and applying global accounting standards. However, there is an absence of empirical evidence to support this simplistic assumption. Thus, research is needed to critically examine this simplistic assumption since a deeper understanding of professional accountants' preferences in interpreting and applying global accounting standards would help standards-setters and governments in various countries to facilitate the move toward convergence of accounting practice. In so doing, it will assist the acceptance and development of convergence and the achievement of its objective of improving the quality and comparability of financial information across countries.

The increasing number of studies examining convergence and the exercise of professional judgments clearly indicates the timeliness and relevance of this thesis. Importantly, while

[4] Additional details on principles-based standards and uncertainty expressions are presented in Chapter 3, p. 127, p. 131-134 and p. 139-142.

prior research has largely concentrated on narrowly-focused theoretical approaches, this thesis aims to demonstrate that a holistic and critical examination of countries' relevant contextual factors can improve accounting research and practice. Until now, contextual and critical insights into determinants of IFRS adoption and development as well as emerging issues and biases have received remarkably little attention, as aptly emphasized by Hopwood (1994, pp. 250-251):

> *Our understanding of many key aspects of international accounting is more rudimentary than many people think and than some would want us to believe. The processes of institutionalization in the area are poorly understood. The emergence of interests in international accounting has not been explored. Little is known to outsiders of the complex and shifting politics that pervade the area.*

After almost two decades, international accounting research is still criticized for failing to provide in-depth contextual insights into the convergence process that take into account relevant interdependencies, interests and politics (Chua & Taylor, 2008). Moreover, despite severe criticisms on the promotion of Anglo-American dominance and interests by means of convergence, there is a lack of research that has rigorously incorporate power and conflict in examining global convergence with the adoption of global accounting standards. A deeper understanding of the adoption of the global accounting standards focusing on external and domestic pressures as well as conflict of interest and power dependence can help identify potential limitations and constraints on, and challenges to the future development of the global accounting standards. As such, international accounting researchers, standard setters, practitioners, educators and accounting firms would benefit from a contextual and critical analysis with an interdisciplinary focus. This thesis contributes to the literature by providing the critical and contextual evaluation of accounting development and convergence in Indonesia with the focus on important contextual factors as well as the influence of external and domestic pressures, conflict of interests and power dependence, and their interdependencies. This thesis further contributes to international accounting research by providing a rigorous and contextual examination of the promotion of principles-based standards and professional accountants' judgments by convergence in Indonesia.

1.3. Aim and objectives

The aim of this thesis is to provide relevant insights into accounting practices and global convergence in the context of Indonesia. This aim is attained by three separate research papers that examine various issues related to global convergence and professional accountants' perceptions and judgments in Indonesia by invoking multidisciplinary perspectives. Specifically, the three research papers have the following objectives:

1. To holistically examine the influence of relevant contextual factors, namely, social, political and economic factors on convergence in Indonesia.
2. To critically examine professional accountants' preferences for the application of principles-based versus rules-based standards in Indonesia.
3. To examine within-country differences in judgments by focusing on the influence of auditor-gender and client-gender on accounting students' and professional accountants' judgments regarding client-provided explanations on a potentially obsolete inventory balance in audit.

Additional information related to the three research papers that comprise the main part of this thesis is provided below[5].

1.3.1. Paper 1: "Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia"

This paper critically examines the influence of relevant contextual factors on global convergence in Indonesia. Using Indonesia as a case study, this paper develops a holistic theoretical framework by incorporating external and domestic pressures that influence convergence, with a focus on the influence of Islam, the forces of globalization, conflict of interest and power dependence as well as internal environment. Applying this more holistic approach to Indonesia, this paper provides a richer understanding of the relationships between various contextual factors and convergence. Moreover, this paper offers additional insights by revealing issues in the implementation and application of global accounting standards that may hinder the achievement of comparability of financial information. This paper also aims to make a methodological contribution to literature by utilizing two approaches in analyzing data namely the use of researchers' judgments and the application of qualitative-data-analysis software. By so doing, this paper compares the

[5] The contribution of the PhD candidate to each research paper is 80%.

effectiveness of those two approaches in providing richer results from the analyses of interview materials.

This paper addresses the first objective of this thesis by providing a holistic examination of convergence in Indonesia by incorporating relevant contextual factors with an emphasis on external and domestic pressures including conflict of interest and power dependence. The findings of the first chapter set the background and methodological approach for the other two research projects by providing evidence that strong reliance on oversimplified classification and categorization overlooks the incorporation of unique contextual factors and its important influence on development of the accounting standards and practices. The findings of this paper, which provides insights at the national level, contribute to the motivation of the remaining two papers, which examine professional accountants' preferences for principles-based standards and gender-based judgments of professional accountants. This paper provides support for the underlying premise of this thesis that accounting research is a social and dynamic discipline that necessitates the integration of diverse theoretical perspectives and multiple methodological approaches in its examination rather than strong reliance on simplistic classification, categorization and quantification.

An earlier version of this paper was presented at The 37th European Accounting Association Conference (Estonia, 21–23 May 2014).

1.3.2. Paper 2: "Professional Accountants' Preferences for the Application of Principles-Based versus Rules-Based Standards in Indonesia"

This paper critically examines the professional accountants' preferences for principles-based versus rules-based standards in Indonesia. This is an important and controversial topic due to the concerns about Anglo-American biases of convergence which are highlighted by the promotion of "substance over form" approach, principle-based standards and extensive use of accountants' professional judgments in convergence. An implicit assumption underlying convergence is that the professional accountants in all countries have a preference for principles-based standards. However, there is a lack of empirical evidence to support this assumption. One main objective of this paper is to challenge the simplistic assumption by the global standards-setters by critically examining a research question with respect to professional accountants' preferences for principles-based standards in the context of Indonesia.

This paper also makes a methodological contribution to international accounting research by integrating a hypothetico-deductive framework and a qualitative research approach in its examination. For the hypothetico-deductive framework, this paper focuses on examining professional accountants' preference for principles-based versus rules-based standards in general as well as in specific application of accounting standards for Leases, Investment in Associates and Business Combination.

This paper contributes to accounting literature by incorporating relevant Indonesian contextual factors in examining the preferences of professional accountants drawing from historical, political, sociological, anthropological and psychological literature. Based on the unique social, political and economic factors of Indonesia, this paper proposes the following hypothesis:

H_{1a}: Professional accountants in Indonesia are more likely to demonstrate a greater preference for the rules-based standards than the principles-based ones.

Moreover, focusing on an important and relevant personality variable of Construal of Self, this paper also formulates the following hypothesis:

H_{1b}: Professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for rules-based standards.

Data to test the hypothesis were collected using a survey questionnaire distributed to professional accountants working in Big Four accounting firms in Indonesia. The professional accountants were required to have at least one year's professional experience to ensure equivalence of sample. Responses from a sample of 71 professional accountants were analyzed to examine their preference in interpreting and applying accounting standards.

Data for the qualitative approach were collected using semi-structured interviews as a part of a larger research project examining convergence in Indonesia. Interviews were conducted with eight senior accounting academics and sixteen senior professional accountants in Indonesia to gain insights into the promotion of principles-based standards and professional judgments by convergence in Indonesia.

The overall findings of this paper provide evidence to reject the global standards-setters' simplistic assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards. Moreover, comparison of results from quantitative and qualitative approaches provides evidence for the limitations of the hypothetico-deductive research framework. In particular, this paper shows that strong reliance on the hypothetico-deductive approach may lead to contradictory findings and ambiguous conclusions. Thus, this paper also provides support for the importance of invoking diverse theoretical perspectives and multiple methodological approaches in the examination of complex and multidimensional topics such as contextual influences on convergence and professional accountants' preferences and judgments.

1.3.3. Paper 3: "Gender-Based Auditors' Judgments in Indonesia"

This paper examines the influence of auditor-gender and client-gender on accounting students' and professional accountants' professional judgments in respect of client-provided explanations on a potentially obsolete inventory balance by two important ethnic groups in Indonesia, namely, Javanese and Minangkabau. This focus has been selected because the current focus on Islam has stimulated a growing investigation of various issues related to Islam and accounting. However, concerns have been raised on the lack of research on issues related to gender in Islamic countries despite the acknowledgement that gender ("*al-jins al-bashari*") is a controversial and important aspect in Islam (Broadbent & Kirkham, 2008; Gallhofer, 1998, p. 358). Concerns have also been raised on the narrowly-focused approaches, such as the simplistic assumption of homogeneity in values and judgments of accountants within and across Islamic countries that have largely dominated literature in Islamic context (for example, Arzova & Kidwell, 2004; Askary & Jackling, 2004a; Hassan & Theodore, 2005; O'Leary & Mohamad, 2006; Al-Shammari et al., 2008; Saat et al., 2010). As such, this final paper's main objective is to reject the simplistic assumption of homogeneity in values and judgments of accountants within and across Islamic countries by focusing on significant within-country differences in judgments between the Javanese and Minangkabau in Indonesia.

This paper contributes to the literature by invoking unique aspects of Islamic influence with specific reference to differences in gender roles between the Javanese and the Minangkabau in examining students' judgments. The focus of Javanese gender role is on hierarchy and "woman's nature" (*Kodrat Wanita*). This indicates males' domination of the outside world of politics and work while females are socialized to be obedient and passive, and confined to domestic activities. The idea of gender equality is largely alien among the Javanese, thus it is expected that Javanese male and female students are more likely to exhibit differences in their judgments regarding client-provided explanations on a potentially obsolete inventory balance. In contrast, the Minangkabau gender role emphasis is on matrilineality where women enjoy respect and high status. Women are the focus of inheritance and kinship and participate as actively in decision making as their male counterparts. The idea of gender equality is readily accepted among the Minangkabau, thus Minangkabau male and female students are more likely to exhibit similarities in their judgments regarding client-provided explanations on a potentially obsolete inventory balance. Particularly, this paper proposes the following hypotheses in relation to the influence of student-gender and client-gender on accounting students' judgments:

H_{1a1} Compared to Javanese male students, Javanese female students are more likely to be influenced by client-provided explanations.

H_{1a2} Compared to Minangkabau male students, Minangkabau female students are likely to be equally influenced by client-provided explanations.

H_{1b1} Javanese students are likely to be less influenced by client-provided explanations offered by a female, relative to a male, client representative.

H_{1b2} Minangkabau students are more likely to be equally influenced by client-provided explanations offered by a female, and a male client representative.

H_{1c1} For the Javanese, the male-favorable influence of client-provided explanations is more likely to be greater for female than male students.

H_{1c2} For the Minangkabau, the male-favorable influence of client-provided explanations is more likely to be equal for female and male students.

In addition to the influence of *adat* views on gender, this paper also focuses on the competing influence of organizational culture of accounting firms in examining professional accountants' judgments. In particular, this paper suggests that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. Thus, both Javanese as well as Minangkabau male and female professional accountants are more likely to exhibit similarities in their judgments regarding client-provided explanations on a potentially obsolete inventory balance in audit. As such, this paper proposes the following hypotheses in relation to auditor-gender and client-gender on professional accountants' judgments:

H_{2a} There is no difference in relation to the influence of client-provided explanations on male and female auditors, both Javanese as well as Minangkabau.

H_{2b} Javanese as well as Minangkabau auditors are more likely to be equally influenced by client-provided explanations offered by a female and a male client representative.

H_{2c} The male-favorable influence of client-provided explanations is more likely to be equal for both Javanese and Minangkabau female and male auditors.

Data to test the hypothesis were collected using a survey questionnaire distributed to professional accountants and final year undergraduate accounting students in Indonesia. To ensure equivalence of the sample, questionnaires were administered to professional accountants who have at least one year's professional experience. Moreover, questionnaires were also administered to a sample of third-year undergraduate accounting students in state universities who have completed relevant subjects such as Intermediate Financial Accounting 1 and 2 as well as Auditing 1. Responses from a sample of 104 professional accountants and 202 accounting students were analyzed using the univariate (ANOVA) and the Kruskal-Wallis non-parametric tests.

This paper's findings provide evidence of within-country differences in gender-based judgments of accounting students. The findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. Moreover, this paper provides evidence that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. These findings show that future research needs to invoke broader and more critical perspectives to further investigate the complex and multidimensional issue of gender and accountants' judgments. Findings with respect to accounting students have implications for accounting education within Indonesia. Further, findings with respect to professional accountants have implications for accounting firms in relation to training design and audit team assignment.

The earlier version of this paper has been presented at the 24th Asian-Pacific Conference on International Accounting Issues (Maui, 21-23 Oct 2012) and the 36th European Accounting Association Conference (Paris, 6–8 May 2013).

A summary of the aim of the thesis and the three papers comprising the main part of this thesis is shown in Figure 1.1.

Figure 1.1 Aim of Thesis and Objectives of the Papers

Aim:

to critically examine various issues related to global convergence in Indonesia by incorporating the influence of social, political and economic factors on accounting and convergence.

Objective of thesis:

1. to holistically examine the influence of relevant contextual factors, namely, social, political and economic factors on convergence in Indonesia;
2. to critically examine professional accountants' preferences for the application of principles-based versus rules-based standards in Indonesia; and
3. to examine whether there are differences in judgments by focusing on the influence of auditor-gender and client-gender on accounting students' and professional accountants' judgments regarding client-provided explanations on a potentially obsolete inventory balance in audit.

Chapter 2 (Paper 1)
Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia

Chapter highlights:

- to develop a holistic theoretical framework to critically examine the influence of relevant contextual factors on convergence in Indonesia;
- to show that, compared to the reliance on electronic search functions of qualitative-data-analysis software, the use of researchers' judgments provides additional insights which the software systems cannot.

Contribution to thesis:

- the holistic theoretical framework provides richer insights into the influence of relevant contextual factors, such as Islam, forces of globalization, conflict of interest and power dependence, as well as internal environment, on convergence in Indonesia;
- reveals issues faced by convergence in Indonesia due to the lack of alignment between relevant Indonesian contextual factors and Anglo-American values that underlie convergence.

Chapter 3 (Paper 2)
Professional Accountants' Preferences for the Application of Principles-Based versus Rules-Based Standards in Indonesia

Chapter highlights:	Contribution to thesis:
• to challenge the simplistic assumption by the global standards-setters that professional accountants in all countries have a preference for principles-based standards; • to show the influence of relevant contextual and personality factors on professional accountants' preferences in interpreting and applying global accounting standards in Indonesia; • to use a hypothetico-deductive frame-work and a qualitative research approach to critically examine professional accountants' preferences.	• shows that professional accountants in Indonesia demonstrated a preference for the rules-based approach in interpreting and applying international accounting standards in their work; • shows disparities of results between the hypothetico-deductive framework and the and the quantitative approach, indicating that strong reliance on hypothetico-deductive research may lead to ambiguous findings and misleading conclusions.

Chapter 4 (Paper 3)
Gender-Based Auditors' Judgments in Indonesia

Chapter highlights:	Contribution to thesis:
• to provide evidence to reject the simplistic assumption of homogeneity in values and judgments of accountants within and across Islamic countries by focusing on significant within-country differences in judgments between two important ethnic groups in Indonesia, the Javanese and the Minangkabau; • to contribute to accounting research by including both professional accountants and accounting students in the examination. The findings may provide contributions to the harmonization of accounting education which is the focus of IFAC through the International Accounting Education Standards Board (IAESB). • to focus on the competing influence of organizational culture of accounting firms on professional accountants' judgments. Specifically, to provide support for the strong influence of organizational culture of accounting firms on professional accountants' judgments that diminishes differences in gender-based judgments among them.	• shows differences in judgments of accounting students, thus provides evidence that the simplistic assumption of homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia; • shows the strong influence of organizational culture of accounting firms on professional accountants' judgments that overrides differences in gender-based judgments among professional accountants.

1.4. Methodology

This thesis views accounting and issues related to convergence as social constructs and shaped by the society in which it operates (Hopwood, 2000). Indeed, it has been acknowledged that accounting is a function of the context and history of the setting that should not be ignored in order to gain a deeper and richer understanding of accounting practice in a specific context (Williams, 2009, p. 277). In examining relevant contextual influences on global convergence and accounting practices in Indonesia, this thesis invokes a holistic approach by incorporating various perspectives and by integrating multidisciplinary literature from history, politics, sociology, anthropology and psycho-logy.

In order to achieve the aim of providing holistic insights into convergence in Indonesia, it is essential for this thesis to integrate various methodological approaches and wider perspectives in the papers comprising it. The critical analysis of contextual influences on convergence in Paper 1 further emphasizes the need for a diverse discourse in examining convergence in Indonesia. Furthermore, the remaining two papers focus on incorporating multidisciplinary perspectives and methodological approaches.

Specifically, Paper 1 (Chapter 2) *Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia* focuses on developing a holistic theoretical framework to critically examine the influence of relevant contextual factors on convergence in Indonesia. This paper concentrates on external and domestic pressures incorporating the influence of Islam, the forces of globalization, conflict of interest and power dependence, as well as Indonesian internal environment. Prior research in the context of emerging economies support the importance of the forces of globalization in the rush toward global convergence by providing evidence that globalization, privatization and liberalization motivate emerging and transitional economies to join the global convergence (Al-Akra et al., 2009; Albu et al., 2011; Alon, 2013; Bova & Pereira, 2012; Chamisa, 2000; Dimitropoulos et al., 2013; Farag, 2009; Gallhofer et al., 2010; Karampinis & Hevas, 2011; Mashayekhi & Mashayekh, 2008; Mir & Rahaman, 2005; Prather-Kinsey, 2006; Saudagaran & Diga, 1997; Sucher & Jindrichovska, 2004; Tyrrall et al., 2007; Zeghal & Mhedhbi, 2006). Moreover, prior research has also shown the importance of taking into account the influence of external pressures as well as conflict of interest and power dependence in international accounting research to provide deeper and richer insights into accounting reforms and convergence in a country (Arnold, 2012; Gallhofer & Haslam, 2007; Neu & Ocampo, 2007; Perry & Noelke, 2006; Rahaman & Neu, 2003; Rahaman et al., 2007; Rosser, 2003; Sikka, 2001). Given the papers' focus on various factors and their relationships that are complicated to quantify, a qualitative research invoking interpretive approach was considered most suitable. It has been suggested that qualitative research is especially favorable in investigating relationship between factors that are complex, dynamic and influenced by the broader contextual environment (Stake, 1995; Yin, 2003). Data for this paper were collected using semi-structured interviews with eight senior accounting academics and sixteen senior professional accountants in Indonesia. Four of the interviewees were also actively involved in the standard-setting and convergence processes though their respective positions on the Financial Accounting Standards Board, the Public Accountants Professional Standards Board, and the Public Accountants Supervisory Board. The use of accounting academics, professional accountants and members of national standards-setting bodies as interview participants allows a degree of data triangulation considered capable of generating detailed insights and ensuring data reliability (Yin, 2003). All interviews were guided by a list of questions although the richness of data was gathered by follow-up questions where the interviewees were given the opportunity to talk openly about their views and concerns on convergence in Indonesia. Interview materials were analyzed individually maintaining differences and contextual situations that existed among respondents. Importantly, conflicting opinions and attitudes were carefully considered to provide an even and comprehensive investigation.

As previously discussed, this thesis supports the incorporation of diverse theoretical and methodological approaches in providing holistic and critical insights into convergence and its promotion of principles-based standards and accountants' professional judgments in Indonesia. Consistently, Paper 2 (Chapter 3) *Professional Accountants' Preferences for the Application of Principles-Based versus Rules-Based Standards in Indonesia* integrates a hypothetico-deductive framework and a qualitative research approach in its examination. The theoretical framework of this paper was developed based on the contextual influences on professional accountants' preferences in Indonesia drawing from historical, political, sociological, anthropological and psychological literature. For the hypothetico-deductive framework, this paper formulates a hypothesis that professional accountants in Indonesia are more likely to demonstrate a greater preference for the rules-based standards than the principles-based ones. Moreover, focusing on an important and relevant personality variable of Construal of Self, this paper formulates another hypothesis that professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for the rules-based standards. Data to test the hypotheses were collected using a survey questionnaire distributed to professional accountants working in Big Four accounting firms in Indonesia. Participants' preferences in applying global accounting standards were investigated by providing a realistic instruments on the application of principles-based standards which were modified from previous accounting research and have been tested for validity and reliability (for example, Agoglia et al., 2009). Reliability and validity of the instrument was ensured by administering the English version of instrument to four accounting academics and professional accountants. Moreover, a double back-translation process of the English and Indonesian versions was undertaken to ensure the consistency of the different language versions. The Indonesian version of the questionnaires was administered to five Indonesian professional accountants and accounting academics resulting in suggestions to improve its understandability. Further, based on discussions with two Indonesian professional accountants, the questionnaire was further improved for readability and understandability. The questionnaire was also pretested with twenty accounting students in Indonesia especially to ensure consistency between different language versions of the questionnaires. Responses from a sample of 71 professional accountants were statistically analyzed using both the independent sample t-test and the non-parametric Mann-Whitney test to show preferences of professional accountants in Indonesia in interpreting and applying global accounting standards.

For the qualitative approach, eight senior accounting academics and sixteen senior professional accountants in Indonesia were selected and interviewed to gain richer insights into the application of global accounting standards and the promotion of principles-based standards and professional judgments by convergence in Indonesia. The semi-structured interviews were conducted as a part of a larger research project examining convergence in Indonesia. The combination of quantitative and qualitative approaches was considered particularly valuable to provide richer and deeper insights into complex and multidimensional topic such as preferences of professional accountants.

Finally, Paper 3 (Chapter 4) *Gender-Based Auditors Judgments in Indonesia* focuses on within-country differences in judgments of accounting students and professional accountants in Indonesia. Given this focus, this final paper uses the hypothetico-deductive framework to examine the influence of auditor-gender and client-gender on judgments regarding client-provided explanations on a potentially obsolete inventory balance in audit. Relevant social, political and economic factors were taken into account in the a priori hypothesis development. In particular, the paper invokes unique aspects of Islamic influence in Indonesia with specific reference to differences in gender roles between Javanese and Minangkabau ethnic groups in examining students' judgments. The focus of the Javanese is on hierarchy and "woman's nature" (*Kodrat Wanita*). This indicates male domination of the outside world of politics and work while females were confined to domestic activities, obedience and passiveness. The idea of gender equality was largely alien among the Javanese, so that it is expected that Javanese male and female students are more likely to exhibit differences in their judgments with respect to client-provided explanations on a potentially obsolete inventory balances in audit. In contrast, the Minangkabau emphasize women as the central focus of inheritance and kinship. Women enjoy respect and high status, and participate as actively in decision making as males. The idea of gender equality is more readily accepted in Minangkabau, such that Minangkabau male and female students are more likely to exhibit similarities in their judgments with respect to client-provided explanations. Moreover, this paper also proposes that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. Thus, both Javanese as well as Minangkabau male and female professional accountants are more likely to exhibit similarities in their judgments regarding client-provided explanations on a potentially obsolete inventory balances in audit.

Data to test the hypotheses were collected using a survey questionnaire distributed to professional accountants in Indonesia with more than one year's professional experience to ensure the equivalence of sample. Moreover, questionnaires were also administered to third-year undergraduate accounting students in state universities who have completed relevant subjects, namely, Intermediate Financial Accounting 1 and 2 as well as Auditing 1. Participants' judgments were examined by providing a reliable scenario that could be representative of decisions professional accountants would encounter in practice. The questionnaire adopted an inventory obsolete scenario that has been previously applied in accounting studies and has been tested for validity and reliability (for example, Gold et al. 2009). To further ensure the reliability and validity of the instruments, the original English version of the questionnaire was administered to four accounting academics and professional accountants. After incorporating feedbacks from this step, the double-back translation process was used to ensure consistency of meaning between English and Indonesian versions of the questionnaires. Moreover, the Indonesian version of the questionnaires was administered to four Indonesian professional accountants and accounting academics resulting in suggestions for its improvement. The questionnaire was further improved based on the suggestions and extensive discussions with two Indonesian professional accountants. The questionnaire was also pretested with 19 accounting postgraduate students in Indonesia. Responses from a sample of 104 professional accountants and 202 accounting students were analyzed using the univariate analysis (ANOVA) and the Kruskal-Wallis non-parametric test to examine gender-based judgments among accounting students and professional accountants in Indonesia.

In summary, the methodology of this thesis aims to provide in-depth holistic insights into accounting and convergence in Indonesia, with a particular emphasis on the influence of social, political and economic factors. The multidisciplinary approaches and methodologies of the separate papers correspond to this objective and contribute to international accounting research by emphasizing accounting as a social and institutional structure.

Approval for this project was provided by the FBE Human Ethics Sub Committee, Macquarie University [Ref: 5201100593 (D) and 5201200857 (D)]. The English version of the interview guide and questionnaires distributed in paper format are provided in Appendix 1, 2, 3 respectively. And the final ethics approval letters are shown in Appendix 4.

1.5. Contributions

This thesis makes several theoretical and methodological contributions to accounting research, particularly in the area of international accounting, convergence and professional judgments. Its holistic evaluation of convergence in Indonesia takes into account relevant contextual factors including Islam, the forces of globalization, conflict of interest and power dependence. Moreover, this thesis offers critical investigation on issues and attitudes concerning the promotion of principles-based standards and accountants' professional judgments. In particular, this thesis extends the existing literature by providing insights into convergence in Indonesia and revealing issues in the convergence process that may hinder the achievement of global standards-setters' main objective of comparability of financial information.

The findings of this thesis provide evidence that the achievement of "de facto" convergence (harmonization in accounting practices) requires more than the adoption of a single set of global accounting standards. This thesis shows that a wider range of issues need to be taken into account to understand the convergence process. Furthermore, the findings from the Indonesian context of this thesis may also be relevant for other contexts such as emerging and transitional economies as well as Islamic countries like Malaysia, Pakistan, Turkey and Egypt. The findings of this thesis may also be of interest for other countries involved in the convergence of accounting and auditing as well as harmonization of accounting education.

Paper 1 (Chapter 2) responds to the call by the IASB to provide additional insights on Islamic influence, accounting and convergence in an Islamic country context. Moreover, it responds to recent calls for greater contextual insights into the convergence and IFRS diffusion (Chua, 2008; Judge et al., 2010). The paper reveals that the influence of external and domestic pressures, that are the influence of Islam, the forces of globalization and Indonesian internal environments, as well as conflict of interest and power dependence, may have significant implications on the future acceptance and development of global accounting standards. Using Indonesia as a case study, this paper shows the lack of alignment between a country's relevant contextual environments may results in continuing discussions and arguments about the relevance and usefulness of global accounting standards to a country. Moreover, this paper also raises concerns about the applicability and superiority of global accounting standards as "the best" international practice (Heidhues & Patel, 2012b, p. 15). Further, by proposing a holistic theoretical framework, contributions are made by revealing additional issues and challenges in the implementation and application of global accounting standards.

This paper also shows that the reliance on narrowly-focused theoretical approaches such as simplified quantification and broad categorization has largely failed to offer rich insights into accounting and convergence in a given country. In contrast, the case study of Indonesia provides evidence that additional insights can be achieved by holistically and critically examining global convergence in a particular country's social and institutional context. As such this paper contributes to international accounting research by emphasizing the significance of understanding accounting as a social discipline and construction, thus necessitates a contextual and holistic examination.

Paper 2 (Chapter 3) also makes theoretical and methodological contributions to the accounting literature. From a theoretical methodological perspective, the paper provides evidence to reject the global standards-setters' implicit assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards. The findings reveal issues and concerns related to the application of principles-based standards and the exercise of accountants' professional judgments promoted by convergence. From a methodological perspective, this paper contributes to the literature by examining professional accountants' preferences using a hypothetico-deductive framework and a qualitative research approach. By so doing, this paper shows disparities between results from quantitative and qualitative approaches, thus providing evidence on the limitations of the hypothetico-deductive framework in examining complex and multidimensional issues such as professional accountants' preferences in applying global accounting standards. Moreover, findings in the context of Indonesia provide further evidence of the importance of integrating broader perspectives and multiple approaches in evaluating issues of perceptions and judgments related to convergence.

Finally, Paper 3 (Chapter 4) contributes to the literature by providing evidence of within-country differences in judgments of accounting students in Indonesia. This paper also contributes to accounting research by including both professional accountants and accounting students in its examination. In contrast to professional accountants, accounting students have generally not been subjected to various issues related to the use of professional judgments in workplaces. Further, students have not been molded by the strong forces of organizational culture. As such, it is more likely that there are differences between professional accountants and students' judgments that warrant examination.

This final paper provides evidence of within-country differences in gender-based judgments of accounting students. As this paper reveals, homogeneity in values and judgments of accountants including accounting students cannot be assumed even within a country such as Indonesia. The findings on students' judgments contribute to the accounting education literature. Accounting education needs to ensure that broad and complex issues such as judgments in accounting are effectively communicated to students, to promote a deeper understanding beyond “simply” technical textbook explanations. The findings may also provide contributions to the harmonization of accounting education which is the focus of the IFAC through the International Accounting Education Standards Board (IAESB). This paper also contributes to the literature by showing some of the factors that influence judgments of professional accountants. In particular, this paper’s findings provide support for the strong influence of organizational culture of accounting firms on professional accountants’ judgments that diminishes differences in gender-based judgments among professional accountants. The findings again show the importance of incorporating broader perspectives in evaluating complex and multidimensional issues related to contextual influences and judgments.

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Chapter 2: Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia

Abstract

This paper aims to critically examine the influence of contextual factors on convergence in Indonesia with a particular focus on external and domestic pressures that include the influence of Islam, the forces of globalization, conflict of interest and power dependence, as well as internal environment. Data were collected using semi-structured interviews with 24 accounting academics and senior professional accountants in Indonesia. The paper's findings show that, first, external pressures (*tekanan dari luar*), especially those from the World Bank and the IMF, were influential in the rush towards global convergence in Indonesia. Second, given the importance of State-Owned enterprises (SOEs), Family-Owned Businesses (FOBs) and Small-Medium Enterprises (SMEs), concerns have been raised regarding the usefulness and relevance of convergence to Indonesia. Third, Islam poses challenges for convergence which is evidenced with the use of a different set of *Sharia* Financial Accounting Standards by Islamic Financial Institutions (IFIs) in Indonesia. Fourth, the Javanese emphasis on harmony within hierarchy (*rukun*), social relationship (*relasi*), respect (*hormat*) and *gotong royong* (mutual assistance) exacerbate the problem of "crony capitalism" in Indonesia. The Javanese *adat* reinforces the use of compromise to resolve conflicts between convergence, the internalized values and dominant interests. Fifth, powerful actors in Indonesia who feel threatened by the increasing transparency promoted by the convergence often use their power to protect their interests by intervening to manipulate the implementation and application of the global accounting standards. Thus, this paper provides evidence of formal ("de jure") but not necessarily real ("de facto") convergence in Indonesia. This paper also makes a methodological contribution by utilizing researchers' judgments and qualitative-data-analysis software in analyzing data. The findings show that the use of researchers' judgments provided insights that could not be obtained by relying on qualitative-data-analysis software. The findings of this study have implications for global convergence, specifically in countries with strong Islamic traditions.

Keywords: Indonesia, Islam, convergence, and contextual factors.

2.1. Introduction

Over the last two decades, the global convergence of financial reporting has become a dominant topic in accounting research (Alp & Ustundag, 2009; Chand & Patel, 2008; Dimitropoulos et al., 2013; Ding et al., 2007; Heidhues & Patel, 2011, 2012a; Hellmann et al., 2010; Irvine, 2008; Joshi & Al-Basteki, 1999; Joshi et al., 2008; Kabir et al., 2010; Karampinis & Hevas, 2011; Peng et al., 2008; Tyrrall et al., 2007). The convergence of financial reporting focuses on the adoption of global accounting standards and/or guidelines, namely, the International Financial Reporting Standards (IFRS), the International Standards of Auditing (ISA), the Code of Ethics for Professional Accountants (the Code), and the International Education Standards (IES) as national standards and/or guidelines in various countries around the world. Currently, 128 countries have required or permitted the use of IFRS for domestic listed companies (Deloitte Touche Tohmatsu Limited, 2013).

These global accounting standards and/or guidelines (hereafter, referred to as "global accounting standards") are developed by global standards-setters, namely, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC). The objective of the IASB, which issues the IFRS, is "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards based on clearly articulated principles" (IASB, 2014). The ISA, the Code and IES are developed by the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) of the IFAC, respectively. IFAC claims a commitment to serving the "public interest" by strengthening the profession and contributing to the development of strong international economies (IFAC, 2014). IFAC comprises 179 members and associates in 130 countries, representing approximately 2.5 million accountants (IFAC, 2014). These member countries are expected to adopt ISA, the Code and IES as national standards. Moreover, since 2004, IFAC's Statement of Membership Obligation required both full and associate members to incorporate the IFRS in their national accounting standards and to assist with the implementation of IFRS (Deloitte Global Services Limited, 2011; IFAC, 2014).

The global standards setters have assumed that accounting is neutral, objective and value-free, and thus the relevant social, political and economic factors of a country can be ignored in this rush towards global convergence (Heidhues & Patel, 2012b; Heinz et al., 2014; Patel, 2003, 2004; Patel et al., 2002). As such, one of the major objectives of this paper, using Indonesia as a case study, is to challenge the simplistic assumption of the global standards-setters by invoking arguments based on the claim of protecting the "public interest." The question of whose "public interest" the standards-setters are protecting has not been discussed by the global standards-setters.

Accounting literature has raised concerns with regard to the Anglo-American biases of convergence. Indeed, the global accounting standards largely reflect the Anglo-American values, principles and practices that may not be suitable to be applied to other contexts with their own unique social, political and economic factors. International accounting literature has provided evidence that Anglo-American dominance of world political economy substantially influenced the essential characteristics of the IFRS such as capital market orientation, fair value measurement and accountants' professional judgments (Gallhofer & Haslam, 2007; Perry & Noelke, 2006). It is demonstrated that fair value measurement highlights the Anglo-American emphasis on financing over the productive sector (Perry & Noelke, 2006). The increasing internationalization and dominance of US and UK multinational firms in the global market has provided further support for large accounting firms, reinforcing Anglo-American dominance (Cooper et al., 1998; Jang, 2005; Suddaby et al., 2007). Importantly, empirical evidence has shown that the lack of suitability of the Anglo-American accounting model to other contexts raises issues on convergence in a country and, therefore, challenges the global standards-setters' major objective of comparability of financial information across countries (Alp & Ustundag, 2009; Chand & Patel, 2008; Chand & White, 2007; Heidhues & Patel, 2012b; Hellmann et al., 2010; Joshi & Al-Basteki, 1999; Karampinis & Hevas, 2011, 2013; Tsipouridou & Spathis, 2012; Tyrrall et al., 2007).

Moreover, concerns have also been raised regarding the global standards-setters' promotion of principles-based standards and "substance over form" approach that necessitates extensive accountants' professional judgments to determine the nature of business transactions and their related accounting treatments (Agoglia et al., 2011; Bennet et al., 2006; IASC, 2000, p. 24; McEnroe & Sullivan, 2013; Schipper, 2003). Accounting literature has shown that, given convergence's strong reliance on professional judgments, the adoption of one uniform set of global accounting standards ("de jure convergence") does not necessarily guarantee comparability in accounting practices ("de facto convergence") across countries unless those standards are interpreted and applied in a consistent manner (Chand et al., 2011; Chand et al., 2010; Doupnik & Perera, 2009). Importantly, long standing research has provided evidence that contextual factors, including culture, influence accountants' professional judgments, and therefore challenge the achievement of comparable financial information within and across countries (Agoglia et al., 2011; Chand et al., 2011; Chand et al., 2010; Doupnik, 2008; Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004; Heidhues & Patel, 2012c; Patel, 2006).

Despite the growing research on global convergence, concerns have been raised about a lack of research that examines the influence of globalization on accounting practices and institutions in non-Anglo-American contexts, especially in Islamic countries (Kamla, 2012, p. 189; Kamla & Rammal, 2013). This dearth of research is increasingly important due to the suggestion that Islam presents challenges to global convergence of financial reporting which is especially related to the movement towards "Islamic convergence," primarily driven by Islamic Financial Institutions (IFIs) and an Islamic standards-setting body, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Hamid et al., 1993; Kamla & Rammal, 2013; Vinnicombe, 2010). This Islamic convergence movement is an endeavor to resist globalization and the promotion of Anglo-American dominance which challenge Islam and Islamic law (*Sharia*[1]) (Banerjee & Linstead, 2001; Hamid et al., 1993; Kamla & Rammal, 2013; Nurullah, 2008, p. 45).

The importance of Islam on global convergence is evidenced by the IASB's decision in 2013 to form a consultative group on *Shariah*-Compliant Instruments and Transactions (IFRS Foundation, 2014). The objective of this group is to examine challenges that may arise in the application of IFRS to the instruments and transactions of Islamic finance, to invite papers on those challenges, and to make recommendations to the IASB regarding steps that it might take after reviewing the key recommendations of those papers (IFRS

[1] *Sharia* is an Arabic word that means "the Path to be followed." The primary source of Islamic law is the Quran, the Islamic holy book. The second primary source of *Sharia* is *Sunna*, which means "tradition," referring to the oral teachings or behavior of the Prophet Muhammad. In addition to the Quran and *Sunna*, other supplementary sources include independent juristic reasoning (*ijtihad*), which refers to exercising independent juristic reasoning to provide answers when the Quran and *Sunna* are silent. In a broader sense, *ijtihad* is the use of human reason in the elaboration and explanation of the *Sharia*, interpretation of the texts of the Quran, and its application in concrete situations (Anwar & Rumminger, 2007; Mashhour, 2005; Mir-Hosseini, 2009).

Foundation, 2014). This paper responds to the call by the IASB to provide additional insights on Islamic influence, accounting and convergence in an Islamic country context.

The aim of this paper is to critically examine the influence of social, political and economic factors including the influence of Islam and Javanese values (*adat*[2]) on global convergence in Indonesia. Indonesia provides an appropriate and unique context to examine various aspects of contextual influences including Islam on global convergence. Islam is the religion of 87 percent of 253 million Indonesians, and thus plays important role in understanding this context. Indonesia consists of over 300 ethnic groups whereby Javanese ethnic group comprising almost half of the population (Central Inteligence Agency, 2014a; Liddle, 1996). Indonesia officially announced the start of global convergence, taking a gradual transition approach in 2008 (Indonesian Institute of Accountants, 2009, 2012; Indonesian Institute of Certified Public Accountans, 2012). Indonesia adopted the Code and ISA in 2010 and 2013, and claimed to have achieved full convergence with IFRS in 2012, although some differences remain[3]. Moreover, Indonesia is important for the future market development of the Islamic banking industry because it is predicted that Islamic banking assets in Indonesia in 2014 will grow between 19 and 29 percent (Reuters, 2014).

It is important to note that Indonesia has different contextual environments compared to those of Anglo-American countries. One important example is that State-Owned enterprises (SOEs), Family-Owned Business (FOBs) and Small-Medium Enterprises (SMEs) are important in the Indonesian business environment. There are 141 SOEs with total assets approximating 40 percent of gross domestic product (GDP) and whose total revenues are nearly 20 percent of the Indonesian GDP (Ministry of SOEs, 2010). This

[2] The concept of *adat* has been used since 19th century by the Dutch colonial government to refer to customary law which is independent from Islamic *Sharia*. During this period, legal pluralism in colonial Indonesia was introduced and *adat* was used for cultural geographic classifications by which the Dutch divided Indonesia into at least nineteen *adat* law areas. *Adat* law, rather than *Sharia*, was then imposed wherever possible in an attempt to distance the indigenous Indonesians from Islam (Spyer, 1996). In Indonesia, *adat* includes customary laws and the unwritten traditional code prescribing accepted customs, beliefs, practices and institutions regulating social, political and economic as well as maritime and land laws inherited by communities rather than imposed by the state (Blackwood, 2001, p. 126; Henley & Davidson, 2008, p. 817). Importantly, *adat* also represents an abstract but powerful set of ideas regarding what an ideal society should be like focusing on authenticity, community, harmony, order and justice (Henley & Davidson, 2008, p. 817).

[3] For example, Indonesia has not adopted IFRS 1 "First Time Adoption of IFRS" claiming that IFRS 1 has been included in the transitional provision in the individual standards adopted from IFRS. Moreover, Indonesia has not adopted IFRS 41 "Agriculture" because the use of fair value measurement for biological assets is considered incompatible with Indonesia context (PricewaterhouseCoopers, 2013). Several updates of IFRS also have not been adopted.

shows that the Indonesian government is the primary user of financial reporting for economic planning purposes. Moreover, 80 percent of large companies in Indonesia are dominated by FOBs while SMEs comprise 99 percent of businesses in Indonesia (World Bank, 2005). The unique business environment of Indonesia has implications for issues such as “crony capitalism,” related-party transactions, “harmony within hierarchy” and secrecy of information. Importantly, the Indonesian business environment raises questions about the relevance and usefulness of convergence to Indonesia.

To achieve its objective, this paper develops a holistic theoretical framework incorporating external pressures (*tekanan dari luar*) on and domestic tensions within Indonesia, with a focus on the influence of Islam, the forces of globalization, conflict of interest and power dependence, as well as internal environments. The theoretical framework developed in this paper provides deeper insights into Indonesian responses to external and domestic pressures for global convergence and shedding further light into major issues faced by convergence in the country. By so doing, this paper provides theoretical contributions to the international accounting literature. Moreover, this paper also makes a methodological contribution to the literature by utilizing two approaches in analyzing data, namely, the use of researchers’ judgments and the application of qualitative-data-analysis software. The results of this paper show that the use of researchers’ judgments provides additional insights to those derived from a strong reliance on the application of qualitative-data-analysis software.

The remainder of this paper is organized as follows. Section 2.2 presents the literature review for this study with a focus on limitation of prior research examining various countries’ experiences with convergence. Section 2.3 discusses the theoretical framework developed in this paper to critically examine the interrelationships between important contextual factors and convergence in Indonesia. Section 2.4 presents the research methods utilized in collecting and analyzing data for this paper. Section 2.5 analyzes the influence of external pressures (*tekanan dari luar*) on convergence in Indonesia. The section consists of two subsections related to the forces of globalization and Islamic convergence of financial reporting, respectively. Each subsection is organized by providing the background information and is followed by related findings from the interview. Section 2.6 focuses on an analysis of five aspects of the environment in Indonesia, namely, societal, organizational, actor, professional and accounting, to highlight domestic tensions and issues with respect to global convergence due to contextual inconsistencies between Indonesia and Anglo-American countries. Section 2.7 reinforces findings from the earlier sections by highlighting how convergence intertwines with organizational players' conflict of interest and power dependence in the context of Indonesia. Finally, conclusions are presented in Section 2.8.

2.2. Literature Review on Limitations of Prior Research

The increasing importance of the IASB and the IFAC as global standards-setters and the convergence that is sought by the adoption of global accounting standards have led to a number of studies examining various countries' experiences with that convergence (Albu et al., 2011; Alon, 2013; Alsuhaibani, 2012; Baker et al., 2010; Bhattacharjee, 2009; Dahawy et al., 2002; Heidhues & Patel, 2012b; Hellmann et al., 2010; Karampinis & Hevas, 2013; Kholeif, 2010; Moczarska; Sucher & Jindrichovska, 2004; Tyrrall et al., 2007; Valentinetti & Rea, 2012; Vellam, 2004). However, prior studies have largely focused on the influence of economic factors rather than attempting a comprehensive examination of relevant contextual factors incorporating external pressures, conflict of interest and power dependence.

A study on the possible reasons for the non-adoption of IFRS in Indonesia by Perera and Baydoun (2007) is quite an exception and particularly relevant to this paper. Perera and Baydoun's (2007) study provides insights into the accounting environment of Indonesia by analyzing Indonesian accounting ecology, namely, societal, organizational, individual, professional and accounting environments in Indonesia using Gernon and Wallace's (1995) accounting ecology framework. The paper highlights the contrasts between Indonesian and Anglo-American values that explain the possible reasons for the Indonesian standard-setter's decision to not allow the use of IFRS by public companies in the country at that time. Specifically, using two of Hofstede's (1980) cultural dimensions, namely, individualism/collectivism and high/low power distance, and Gray's (1988) accounting values, the paper shows that, given the lower level of individualism and professionalism and large power gaps in Indonesian society, its accounting profession is likely to rank highly in terms of both conservatism and secrecy. These accounting values result in a low level of transparency in financial reports and explain why the Indonesian government did not adopt the IFRS which require greater transparency. Importantly, while their paper did not explicitly mention Islamic *Sharia* as a part of its discussion on Indonesian cultural values, the authors claimed that the transparency that is derived from the Anglo-American tradition may not be consistent with Islamic traditions in Indonesia. Perera and Baydoun (2007, p. 220) further claimed that the most likely challenges to enforce the disclosure requirements of IFRS in Indonesia would be the strong influence of Islam in every facet of a Muslim's life, including business activities. The authors provide an example of how "Islam encourages good behavior in conducting business, while at the same time, [it] discourages Muslims to publicize the fact of their good behaviours" (Perera & Baydoun, 2007, p. 220).

The current paper believes that further study is needed, for several reasons, to provide an updated and more holistic examination focusing on the contextual influences on convergence in Indonesia. First, changes have occurred in Indonesia since Perera and Baydoun's (2007) study. As mentioned earlier, in 2008, Indonesia announced the start of convergence by gradually adopting the global accounting standards as local standards in Indonesia. Indonesia adopted the Code, IFRS, and ISA in 2010, 2012, and 2013, respectively (Indonesian Institute of Accountants, 2009; Indonesian Institute of Certified Public Accountans, 2012).

Second, as mentioned previously, prior research tended to focus only on a few contextual factors and, thus, overlooked other important contextual influences that may have been important for accounting practice and for convergence. For example, the influence of Islam had not been fully incorporated by Perera and Baydoun's (2007) paper. In particular, it used Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions and Gray's (1988) accounting values but did not incorporate Islamic *Sharia* in its initial discussion regarding the Indonesian societal environment. Therefore, its conclusion that "transparency as emphasized in the Anglo-Saxon tradition may not be equally acceptable to Islamic traditions in Indonesia" may not have a strong basis (see Perera & Baydoun, 2007, p. 221). Indeed, the conclusion is in conflict with other scholars' suggestions that Islamic emphasis on justice (*adl*) and truth (*haqiqah*) in turn demands greater transparencies compared to those provided by the Anglo-American financial reporting model (Baydoun & Willett, 2000; Hamid et al., 1993; Sulaiman & Willett, 2003). For example, in trying to develop a theory about the form and content of the financial information that should be contained in Islamic financial statements, Baydoun and Willet (2000) identify two important criteria for disclosure in Islamic accounting, namely, a form of social accountability and a rule of full disclosure. The authors then modify the form of conventional Western financial statements to arrive at the form taken by Islamic Corporate

Reports (ICR). The authors suggest that ICR should include a current value balance sheet in addition to the historic cost balance sheet and value added statements should replace the income statement as the focus of performance of the accounting entity. Moreover, in their examination of the appropriateness of ICR suggested by Baydoun and Willet (2000), Sulaiman and Willett (2003) argue that Islamic society should favor a more transparent disclosure policy, greater variability in reporting practices between companies and across time and less conservative measurement practices.

Third, prior research has largely overlooked taking into account the influence of external and domestic pressures as well as conflict of interest and power dependence in examining how convergence has been applied (Albu et al., 2011; Alon, 2013; Alsuhaibani, 2012; Bhattacharjee, 2009; Hellmann et al., 2010; Karampinis & Hevas, 2013; Kholeif, 2010; Moczarska; Sucher & Jindrichovska, 2004; Tyrrall et al., 2007; Valentinetti & Rea, 2012). Recall that this paper supports that accounting and convergence are socially constructed, such that research can provide in-depth understanding of this topic by rigorous analysis of convergence in its institutional context and incorporating external pressures, conflict of interests and power dependence. Indeed, prior research has shown that it is important to take into account the influence of external pressures as well as conflict of interest and power dependence to provide richer insights into accounting reforms and convergence in a country (Arnold, 2012; Gallhofer & Haslam, 2007; Heidhues & Patel, 2012b; Neu & Ocampo, 2007; Perry & Noelke, 2006; Rahaman & Neu, 2003; Rahaman et al., 2007; Rosser, 2003; Sikka, 2001). Importantly, a number of previous research efforts in Indonesia have shown the importance of conflict of interests and power dependence in providing an in-depth understanding of accounting practices in the country (Leuz & Oberholzer-Gee, 2006; Rosser, 2003). For example, while largely overlooking Indonesian historical, social and economic factors in their analysis, Leuz and Oberholzer-Gee (2006) reveal unique aspects of the accounting environment in Indonesia by showing that political connections play an important role in a firms' financing strategies and their long-term performance. Moreover, Rosser (2003) demonstrates that the notion of power and interest can provide additional insights into Indonesia's experience with corporate governance reform. In particular, the author shows that what appears to be emerging in Indonesia is a corporate governance system that resembles the outsider model of corporate governance in appearance but not in substance. However, Rosser's (2003) study still largely failed to provide an holistic understanding of the Indonesian context because it did not take into account the important influence of Islam, ethnic differences and Indonesia's dominant values in its analysis.

As such, this paper aims to fill the gap in the literature by providing a holistic examination of convergence in Indonesia by developing a theoretical framework that incorporates relevant Indonesian contextual factors. This will be discussed in more detail in the next section. In relation to the socio-cultural aspect of Indonesia, this paper draws on the dominant values in Indonesia by invoking multidisciplinary literature from history, politics, sociology and anthropology. This approach is consistent with one of Patel's (2004) suggestions for accounting research to complement Hofstede's (1980) measures with historical, sociological, psychological and other relevant literature that would identify and provide understandings of the dominant and the peripheral values in a given society. By so doing, this study contributes to, and extends, previous research by going beyond reliance on narrowly-focused categorization and measurement.

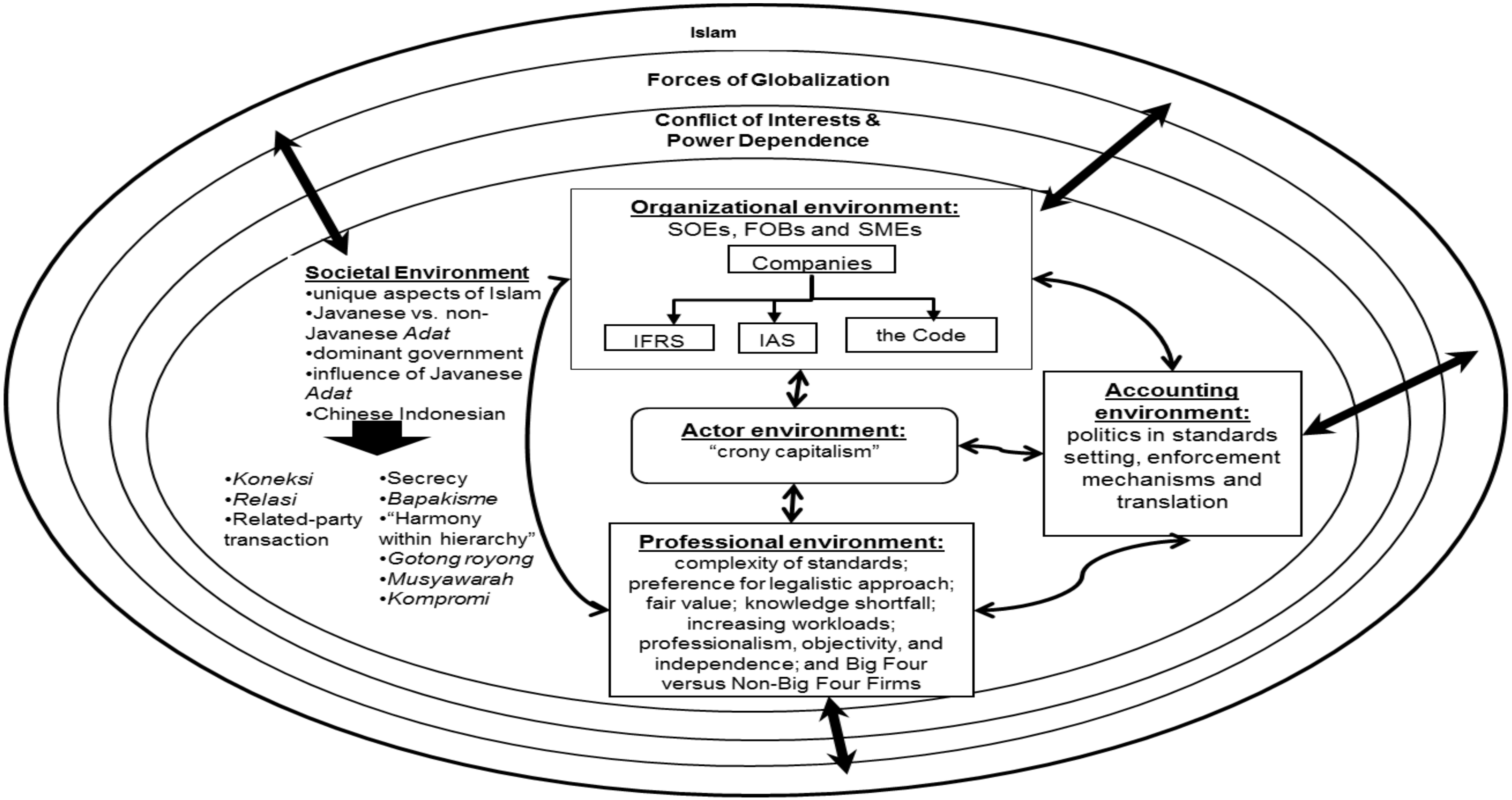
2.3. Theoretical Framework

As mentioned earlier, this paper develops a holistic theoretical framework by taking into account relevant contextual factors, namely, external pressures (*tekanan dari luar*) such as the influence of Islam and the forces of globalization, conflict of interest and power dependence, as well as internal environments in order to critically examine the nature of convergence in Indonesia (see Figure 2.1).

The inside layer of this framework represents Indonesia's internal environment comprises societal, individual/actors, organizational, professional, and accounting aspects consistent with the accounting ecology framework (Gernon & Wallace, 1995). Gernon and Wallace (1995, p.60) described these five separate but interacting slices of the environment as follows:

a. Societal slice: structural (economic, political, and legal systems), demographic and cultural events and/or trends such as structural shifts that may affect the demand for financial reporting services;
b. Organizational slice: events and/or trends bearing on rationalizations in the choice and design of accounting systems and the demand for accounting services, such as organizational size, technology, complexity, and human and capital resources;

Figure 2.1. Theoretical Framework to Examine Convergence in Indonesia



c. Actor/Individual slice: accounting policy choices made by individuals. This slice covers the actions of these individuals as persons, organizations and professional bodies in their efforts to pursue their respective self-interests, and
d. Professional slice: events and/or trends bearing on the determination of roles and relationships in the accounting profession, such as education, training, registration, and professional ethics and culture;
e. Accounting slice: accounting practices, rules and/or trends that affect or are affected by the other slices of the environment. Specifically, this one includes the disclosure and measurement requirements and practices, and types and frequency of accounting reports.

Two recent studies in international accounting have used the accounting ecology framework to provide a clear explanation of accounting system in a given country. First, Perera and Baydoun (2007) have used the framework to highlight factors which influence accounting operations in Indonesia. Essentially, this framework allows their paper to show clear differences between Indonesian accounting environments with those of Anglo-American countries. For example, in contradiction to Anglo-American society, their paper showed that Indonesian society has a lower level of individualism and professionalism and higher power distance based on Hofstede's (1980) cultural dimensions and Gray's (1988) accounting values. In turn, their paper pointed out that the Indonesian accounting profession is likely to rank highly in terms of both conservatism and secrecy which is in contrast to the promotion of transparency and professional judgments in Anglo-American contexts. Thus, their paper contributes to the understanding of the possible reasons for non-adoption of IFRS in Indonesia at that time. Second, the accounting ecology framework has also been used by Hellmann et al. (2010) in examining the unique features of accounting in Germany. Specifically, the framework assists their paper to show that accounting rules and regulation in Germany are codified and increasingly determined by European Union (EU) legislation with value orientation that favors uniformity and statutory control rather than flexibility in application of accounting standards and the extensive use of accountants' professional judgments. Furthermore, their paper also raises issues that can hinder the successful adoption of IFRS in Germany, such as endorsement, translation, interpretation, cost of implementation, lack of consistent training and education, lobbying activities and enforcement.

This current paper adds three layers outside Indonesia's internal environment to localize and emphasize the influences of other important contextual factors on convergence. In the first outer layer, this framework incorporates the influence of Islam. It is important to take into account the influence of Islam because Indonesia is the largest Islamic country in the world with Islam practiced by around 87 percent of 253 million Indonesians (Central Inteligence Agency, 2014a). Indeed, one central characteristic of Islam is the important of Islamic law (*Sharia*) in almost every aspect of its followers' life, both in religious and secular activities. Consistently, it is suggested that Islamic followers cannot in good faith "compartmentalize their behavior into religious and secular dimensions, and their actions are always bound by the *Sharia*" (Lewis, 2001, p. 104; see Tinker, 2004). Therefore, Islam and Islamic *Sharia* not only represent a "personal" religion but also imply a mode of organizing society and its institutions, as well as serving as a guide for the conduct of individuals within the institutional and social context (Tinker, 2004, p. 452). Thus, accounting as a social institution and practice in an Islamic context is most likely to reflect relevant and important Islamic principles in a specific Islamic country context (Askary & Jackling, 2004b; Gambling & Karim., 1991; Lewis, 2001; Tinker, 2004). Therefore, it is important to incorporate the role of Islam in order to gain a deeper understanding of the unique context of Indonesia.

In the second outer layer, the framework includes the forces of globalization. Given the current focus on convergence and globalization studying these forces should provide clear evidence that globalization plays an important part in the imposition of global convergence in Indonesia. Indeed, prior research has provided evidence that the forces of globalization, privatization, and liberalization motivate emerging and transitional economies to join the rush toward global convergence (Al-Akra et al., 2009; Albu et al., 2011; Alon, 2013; Chamisa, 2000; Dimitropoulos et al., 2013; Farag, 2009; Gallhofer et al., 2010; Karampinis & Hevas, 2011; Mashayekhi & Mashayekh, 2008; Mir & Rahaman, 2005; Prather-Kinsey, 2006; Saudagaran & Diga, 1997; Sucher & Jindrichovska, 2004; Tyrrall et al., 2007; Zeghal & Mhedhbi, 2006).

In the third outer layer, this framework takes into account conflict of interest and power dependence to incorporate the complexity of issues related to global convergence in Indonesia. As Greenwood and Hinnings (1996) aptly noted, it is important to take into account the role of conflict of interest and power dependence among individual actors in organizational changes. With regard to conflict of interest, although the Indonesian government is able to impose the adoption of global accounting standards, it is the listed companies and accountants that interpret and apply the standards. Indeed, the literature has shown that organizations do not passively adapt their formal structures to outside demands (Oliver, 1991; Scott, 2008). Moreover, the institutional requirements are subject to "interpretation, manipulation, revision, and elaboration by those subject to them" (Scott, 2008, p. 430). Therefore, it is important to critically examine the role of organizational actors and conflict among them to gain an understanding of their interpretation and application of the global accounting standards. Correspondingly, power dependence theory is based on the belief that people are mutually dependent and form exchange relations and groups. A person's dependence is inversely related to his/her power. Those with greater dependence, that is less power, are constrained in terms of their ability to act in ways that satisfy their interests (Molm, 1988). Inequalities in dependence and power imbalances can lead to conflicts of interests and social change (Emerson, 1972). Consistent with this view, Greenwood and Hinnings (1996) argued that certain organization actors, with less dependence, are able to resist change that is incompatible with their existing institutions. They may have the capability to actively shape the process of change, mobilizing their power to intervene in the change process, preserve the status quo and protect their interests from the adverse influences of the innovation. Therefore, the power and interest of organizational actors can result in formal changes but not real changes. In line with power dependence theory, powerful players, company managers and their alliances of controlling shareholders, may mobilize their power against the accounting convergence. As such, conflict of interest and power dependence are likely to provide insights into both the formal ("de jure") and the practice aspects ("de facto") of convergence in Indonesia.

This framework is proposed in the belief that, to critically examine the unique context of Indonesia, it is important for this paper not only to focus on dynamic aspects of institutional changes but also on external pressures (*tekanan dari luar*) and domestic conflicts that Indonesia has faced in the process of bringing about significant accounting reforms. Specifically, this proposed framework allows this paper to highlight how external pressures (*tekanan dari luar*) and internal conflicts push the Indonesian government towards the adoption of Anglo-American accounting model. These interrelationships between the global and national context and forces are examined to provide richer insights into some of the complex and controversial processes and outcomes in the development of accounting regulations in Indonesia. Indeed, prior research has shown that it is important to take into account the influence of external pressures as well as conflict of interest and power dependence when attempting to provide rich insights into accounting reforms and convergence in a country (Arnold, 2012; Gallhofer & Haslam, 2007; Neu & Ocampo, 2007; Perry & Noelke, 2006; Rahaman & Neu, 2003; Rahaman et al., 2007; Sikka, 2001). This paper suggests that the holistic theoretical framework proposed above allows richer and deeper insights into issues related to convergence in the unique context of Indonesia. This is especially so given its focus on the environment as an essential constituent in global accounting convergence and its emphasis on relevant contextual factors including external pressures (*tekanan dari luar*), internal environments, and conflict of interest and power dependence.

2.4. Research Methods

2.4.1. Interpretive Research and Semi-structured Interview

Accounting is a social construct that is shaped by the society in which it operates (Hopwood, 2000). In other words, accounting is a function of the context and history of the setting and these should not be ignored when seeking to gain a deeper and richer understanding of accounting practice (Williams, 2009, p. 277). Given the complex nature of convergence, this paper used an interpretive research methodology on the basis of the research objective and the beliefs of the researcher. The beliefs of the researcher are consistent with the constructivist perspective. From the view of the researcher, accounting convergence issues are primarily related to human interaction and are considered as social and institutional practices (Hopwood, 2000). Knowledge about accounting convergence practices is socially and experientially constructed (Hopwood, 2000). Researchers have their own biases due to their social status, educational background and life experience which in turn have an impact on that construction. This paper, through such an interpretive method, aims to provide a comprehensive and critical understanding of global convergence in Indonesia.

Data used for this paper were collected using twenty-four semi-structured interviews in Indonesia during January–February and May 2013. All interviewees had educational and training backgrounds in accounting. The selection process for the interviewees was based on criteria such as professional experience in accounting and convergence, previous or current commitment to institutions involved in a standard-setting process, academic reputation, and quality publications in the subject matter of accounting in Indonesia. Of the twenty-four interviews, eight were conducted with senior accounting academics and sixteen senior professional accountants. Moreover, four of the interviewees were actively engaged in the standard-setting and convergence processes though their respective positions on the Financial Accounting Standards Board, the Public Accountants Professional Standards Board, and the Public Accountants Supervisory Board. The list of interviewees for this paper is presented in Table 2.1.

Interviews were carried out by the researcher who is fluent in Indonesian and English in a friendly atmosphere using Indonesian language. The interviews were recorded (with the permission of the interviewees) and transcribed to avoid inaccuracies because of poor recall (Yin, 2003). All interviews were based on a semi-structured interview guide comprising broad open-ended questions on the interviewees' personal understanding of global convergence in Indonesia. It is important to note that the list of questions only served as a guide in the interviews while richer data were gathered by follow-up questions where the interviewees were given the opportunity to talk openly about their views of and concerns on accounting and convergence in Indonesia. Thus, it was important to establish a strong relationship with the interviewees and it took some time to make interviewees comfortable and relaxed, to enable them to talk openly about their views and concerns.

Table 2.1. List of Interviewees

Interviewee No.	Gender	Profession	Expe-rience	Education Level	Interview Duration
1.	M	Partner in a Non-Big Four firm; former member of the Financial Accounting Standards Board; former member of the Public Accountants Professional Standards Board, member of Public Accountants Supervisory Board.	30 years	Doctor	1:21
2.	M	Partner in a Big Four firm; member of the *Sharia* Financial Accounting Standards Board; former member of the Public Accountants Professional Standards Board.	21 years	Bachelor	1:13
3.	M	Manager auditor in a Big Four firm	10 years	Bachelor	0:57
4.	M	Manager auditor in a Big Four firm	10 years	Master	1:05
5.	M	Senior auditor in a Big Four firm	7 years	Bachelor	1:15
6.	F	Professional accountant in a multinational companies, former auditor in a Big Four Firm	6 years	Master	1:10

Interviewee No.	Gender	Profession	Expe-rience	Education Level	Interview Duration
7.	M	Academics; business consultant; former member of the Public Accountants Professional Standards Board.	20 years	Doctor	1:10
8.	M	Academics; business consultant	13 years	Master	1:18
9.	F	Academics; member of the Financial Accounting Standards Board.	13 years	Doctoral	1:22
10.	M	Academics; business consultant	20 years	Doctoral	0:52
11.	F	Academics; consultant	25 years	Doctoral	1:17
12.	F	Academics; consultant	10 years	Master	1:20
13.	F	Academics; former professional accountant; business owner.	10 years	Master	1:15
14.	M	Academics; *Sharia* accounting consultant	11 years	Master	1:29
15.	M	Professional accountants, former senior auditor in a Non-Big Four Firm;	6 years	Bachelor	1:30
16.	M	Manager in a non-Big Four Firm; former senior auditor in a Big Four Firm; former professional accountants.	7 years	Bachelor	1:21
17.	M	Senior auditor in a Big Four firm.	9 years	Master	1:05
18.	M	Senior auditor in a Big Four firm	9 years	Bachelor	1:31
19.	M	Professional accountants, former senior auditor in a Big Four firm.	9 years	Bachelor	1:38
20.	M	Professional accountants, former senior auditor in a Big Four firm.	6 years	Bachelor	1:15
21.	F	Professional accountants, former senior auditor in a Big Four firm.	9 years	Bachelor	0:59
22.	F	Senior auditor in a Big Four firm; professional accountants.	9 years	Bachelor	0:59
23.	F	Senior auditor in a Big Four firm	6 years	Bachelor	1:15
24.	F	Senior auditor in a Big Four firm	10 years	Master	1:08

2.4.2. Analysis of Interview Materials

With the objective being to compare the effectiveness of different data analysis approaches, two approaches were used separately in analyzing the interview materials, namely, the use of the researcher's professional judgments and the use of qualitative-data-analysis software. The first approach involved analyzing the interview materials through the process of coding using the researcher's professional judgments with respect to key themes related to the perceived characteristics of convergence in Indonesia based on the developed theoretical framework. The key themes are Islam, the forces of globalization, conflict of interest and power dependence, and Indonesia's societal, organizational, individual, professional and accounting environments. Interviews of twenty-four subjects were analyzed individually. Tracing voices through individual interview transcripts was carried out during the analysis in order to maintain the differences and contextual situation that existed among respondents. This step was conducted to avoid data analysis simply confirming what the researcher already knows (Mauthner & Doucet, 2003). Key themes and relationships were summarized for each interviewee and the coding reviewed to ensure consistency across interviews. Moreover, key themes were then developed into more detailed themes by identifying a more detailed topic to which a certain broad theme is closely tied. For example, exploration on the key theme "Accounting Environment" of Indonesia showed that the content of discussions closely tied to topics such as "politics in standards setting," "enforcement mechanisms" and "translation." The results of this analysis were then verified by an expert in international accounting.

The second approach involved analyzing the interview data using qualitative-data-analysis software, namely, NVivo. The analysis started with broad coding to organize the material into broad themes (called nodes in NVivo). This paper finds that NVivo is mainly useful as an organizing tool, particularly, in facilitating more efficient data organization (Smith & Hesse-Biber, 1996). However, this paper also found that the strong reliance on qualitative-data-analysis software such as NVivo leads to a number of limitations in the results of the analysis unless the researcher also incorporates his/her judgments and consults the theoretical framework developed in categorizing and coding the materials. One of the claimed benefits of analyzing data with NVivo is its search facility. This is especially useful when the focus of analysis is on quantity, such as how many interviewees say that they support convergence. It is clear that doing this search electronically will be more reliable than relying on manual effort that is prone to human error (Welsh, 2002). However, this search facility largely failed to provide better results when the focus was on more detailed data analysis (Brown et al., 1990; Welsh, 2002). This paper finds that the software is less useful for the important task of identifying themes that emerge during data analysis due to the fluid and creative way in which these themes develop. Indeed, relying on the search facility by using keywords to analyze interview materials using NVivo led to a largely partial retrieval of information. This is especially because similar themes that were expressed in completely different ways were likely to be overlooked (Brown et al., 1990, p. 136). In the end, the researcher would be required to manually scrutinize every piece of interview material and exercise his/her judgments to decide on the themes that emerge from the data in order to provide a comprehensive analysis of data and to improve the validity of the results (Welsh, 2002).

For example, the choice of broad themes was inevitably based on the important notions proposed in the theoretical framework developed in this paper. Furthermore, researcher's judgments are required in exploring each broad theme to conduct a more detailed coding. This is done based on the researchers' reflection on the interviews regarding the topic being discussed and the meanings that offer, such as attitudes, ideals versus reality, and tensions between different actors. The results of this paper show that the use of researcher's judgments in data analysis can provide additional insights compared to those offered by relying exclusively on the application of qualitative-data-analysis software.

2.4.3. Organization of the relevant background information and interview findings

Recall that, to critically examine the unique context of Indonesia, this paper focuses not only on dynamic aspects of institutional changes, but also on external pressures (*tekanan dari luar*) and domestic conflicts that Indonesia has faced in the process of bringing about significant accounting reforms. In order to provide richer and deeper insights into this paper's findings, the analysis are divided into three sections, the influence of external pressures (*tekanan dari luar*), internal environment as well as conflict of interest and power dependence on convergence in Indonesia, respectively. The earlier section (Section 2.5), which focuses on the influence of external pressures (*tekanan dari luar*) on convergence in Indonesia, consists of two subsections. Each subsection focuses on the forces of globalization and Islamic convergence of financial reporting, respectively and is organized by providing the background information and related findings from the interview.

The later section (Section 2.6) focuses on an analysis of five aspects of the environment in Indonesia, namely, societal, organizational, actor, professional and accounting, to highlight domestic tensions and issues with respect to global convergence due to contextual inconsistencies between Indonesia and Anglo-American countries. For the discussion on the aspects of internal environment in Indonesia, five subsections are presented. Subsection 2.6.1 presents background information and related findings from interview related to Indonesian societal environment focusing on the unique aspects of Islam and the influence of Javanese *adat* in Indonesia. Subsection 2.6.2 presents background information and related findings from interview related to organizational environment with a focus on the importance of SOEs, FOBs and SMEs in Indonesia.

Subsection 2.6.3 presents background information and interview findings with respect to Indonesian individual environment with a focus on “crony capitalism.” Subsection 2.6.4 starts with background information on various aspects on the application of the global accounting standards which have impact on Indonesian professional environments. The subsection is then discussed interview findings with respect to complexity of the global accounting standards; preference for legalistic approach; fair value measurement; knowledge shortfall of accountants; increasing workload of auditors; concepts of professionalism, objectivity, and independence in accounting and differences between Big Four and non-Big Four firms. Afterward, subsection 2.6.5 presents background information on aspects of standards-setting in Indonesia and followed by interview findings with respect to politics in standards setting process, enforcement mechanisms and translation of global accounting standards.

The last section (Section 2.7) reinforces findings from the earlier sections by highlighting that convergence is a political process. In particular, the section discusses how convergence intertwines with organizational players’ conflict of interest and power dependence in the context of Indonesia.

It is important to note that, consistent with the focus of this paper, the interview findings provided in the next sections aim to reflect a variety of perspectives rather than reporting relative frequencies by stating percentage figures. This is consistent with the aim of this paper which is to focus on understanding global convergence as a socially constructed concept and not on providing standardization, statistical method and quantitative measurement. Terms such as “many” or “few” may be used in describing the data. However, these proportions are not provided as statistical information but rather aim to show “theoretical saturation,” that is, that no new significant categories or concepts are emerging (Lacey & Luff, 2001).

2.5. External Pressures (*Tekanan dari Luar*): The Forces of Globalization and Islamic Convergence of Financial Reporting

The objective of this section is to highlight how external pressures (*tekanan dari luar*), such as the forces of globalization and Islam, influence the complex and controversial processes and outcomes in the development of accounting regulations in Indonesia.

2.5.1. The Forces of Globalization

2.5.1.1. Background information

It is widely acknowledged that external pressures to conform to global accounting standards such as the IFRS, ISA, the Code and IES are becoming stronger due to the international pressures of globalization and the integration of capital markets, the greater mobility of monetary and actual goods and the development of new technologies (Doupnik & Perera, 2009). The usefulness of one set of global accounting standards becomes evident considering the increasing globalization and internationalization of markets. Transnational corporations and internationally active companies and investors may benefit from the introduction of one set of global accounting standards which, according to the IASB, increase comparability and reduce complexity (IASB, 2014). These external pressures for convergence, among other things, were exerted by several international institutions including the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the International Organization of Securities Commissions (IOSCO), the World Bank and the International Monetary Fund (IMF) (Arnold, 2012; Gallhofer & Haslam, 2007; Neu & Ocampo, 2007; Perry & Noelke, 2006; Rahaman & Neu, 2003; Rahaman et al., 2007; Sikka, 2001). It is important to note that the international agencies are driven by the needs of the countries they represent, most notably the US. For example, even in its role as global financial assistant, the IMF is still subject to control exercised over its board by the EU, Japan, and most of all, the US, because they are its biggest contributors. Any IMF decision about the affairs of a client country "must be acceptable to the US government and will be colored by the Fund's political need to satisfy its 'owners'" (Lindsey, 1998, p. 123). In particular, it is often shown that the international agencies and the US government are mainly concerned with sustained economic reform along neoliberal lines, creating more open economies in East and Southeast Asian countries. This will make these countries accessible to international capital in its pursuit for investment and market opportunities, as well as securing resources (Crawford & Hermawan, 2002; Hadiz & Robison, 2005, p. 221).

The case of Indonesia shows that various external actors have significant influence in Indonesian accounting development. This provides a clear example of how external pressures (*tekanan dari luar*) as well as conflict of interest and power dependence play an important role in supporting the World Bank and the IMF to push institutional reforms in the country (Hadiz & Robison, 2005, p. 221).

The Dutch strongly influenced various aspects of contemporary Indonesia including accounting during the 350 years of Dutch colonization. In this era, the Dutch through its United East Indies Company held the right to a monopoly over Indonesian commercial sector and introduced double-entry bookkeeping to Indonesia (Siddik & Jensen, 1980). In order to maintain its power, the Dutch limited the activities of indigenous Indonesians in commerce and brought a large number of Chinese to fulfill the needed personnel to control commerce in to Indonesia (Liang, 1998). The Chinese were granted with special rights to retail trade, coastal traffic, and subsequently obtained monopolies to most of the tax gathering (Siddik & Jensen, 1980, p. 72). Following the growth of mercantilism around 1870s, the Dutch introduced private foreign investment in Indonesia, with the Dutch dominated 73 percent of shares. The shift towards entrepreneurship strengthened the position of the ethnic Chinese in Indonesian economy. While Chinese functioned as agent for foreign firms, the indigenous Indonesians were mainly allowed to participate as unskilled labors in this new sector (Liang, 1998). The entry of foreign investment also carried along new accounting methods and practices to Indonesia. The accounting system which developed in this period remained after Indonesian independence with minimal adjustment. The strong Dutch influence is evidenced in Indonesian tax laws which were based mainly on regulations prepared by the Dutch in the 1930s (Siddik & Jensen, 1980). Moreover, the Dutch influence is also evidenced in contemporary Indonesian Company Law which regulated financial reporting in Indonesia (Liang, 1998). However, although the Indonesian company law is based on the Dutch system, it has not kept up with subsequent changes in the Dutch Commercial Code. Consequently, many amendments, supplements, and changes made in the Dutch, in particular those in respect of the limited liability company from 1928 onwards, had never been incorporated into the Indonesian Commercial Code (Liang, 1988, p. 17)

The United Nations (UN), the World Bank (WB) and the US gained access to influence Indonesian institutional changes following Indonesian independence form the Dutch. This period marked a shift towards a market economy and US accounting systems in Indonesia (Diga & Yunus, 1997, p. 363; Liang, 1998). In particular, the nationalization of Dutch firms and eviction of Dutch citizens who dominated the university faculties in 1958 resulted in a shortage of lecturers. To alleviate this, the US brought in their own academics to fill the gaps in the universities while the UN supported training programs for personnel in all government departments and in most of the large universities (Liang, 1998). The influence of the World Bank, the IMF and the US on institutional changes in Indonesia was more obvious during Soeharto's New Era from 1966 to 1998. Indeed, it was due to relations between the Indonesian government and Western countries being so tight that "the influence of market-oriented technocrats and international agencies such as the World Bank has been so embedded in the policy process" (Hadiz & Robinson, 2005, p. 220). This is especially evidenced by the enactment of a new foreign Investment Law in January 1967, and a new Domestic Investment Law in November 1968, both of which encouraged the entry of foreign firms into Indonesian markets (Liang, 1998). During this time, in 1973, the Indonesian Accounting Association (*Ikatan Akuntan Indonesian*–IAI) published the first codified Indonesian Accounting Principles (*Prinsip Akuntansi Indonesia*—PAI). They were based on the 1965 US GAAP (Abdoelkadir, 1982; Saudagaran & Diga, 2000; Siddik & Jensen, 1980, p. 74).

The accounting harmonization process started in Indonesia with reforms conducted in early 1990s. These focused on developing capital markets in Indonesia resulting in a substantial growth of listed companies on the Jakarta Stock Exchange[4] (JSX) from 24 to more than 200 companies (Asian Development Bank, 2003; Rosser, 1999). During this period, with the assistance from the World Bank, Indonesia also carried out the 2nd Accountancy Development Project aimed at enhancing accounting regulation and increasing the competency of Indonesian accountants (Rosser, 1999). Importantly, the Indonesian Institute of Accountants made a formal decision to support the harmonization movement initiated by the International Accounting Standards Committee (IASC, the predecessors of IASB) (Rosser 1999, ADB 2003). This was evident in 2004 by the adoption of the IASC's framework for the preparation and presentation of financial statements and the publication of a new set Statement of Financial Accounting Standards

[4] Jakarta Stock Exchange and Surabaya Stock Exchange, two stock markets in Indonesia, merged into Indonesian Stock Exchange (IDX) on 2007.

(SFAS/*Pernyataan Standar Akuntansi Keuangan*—PSAK) that were adapted, among others, from International Accounting Standards (IAS). However, it is important to note that the influence of the rules-based approach of US accounting model continued to be felt in the subsequent development of Indonesian accounting standards even after Indonesia declared support for harmonization (Saudagaran & Diga 1997).

Importantly, it was after the economic crisis of 1997–1998 that external pressures (*tekanan dari luar*) came to dominate Indonesian institutional changes including the decision to join the convergence movement. Following the crisis, the OECD, the World Bank and Asian Development Bank (ADB) launched a range of initiatives to promote corporate governance reform in Indonesia. At the same time, the IMF made the adoption of corporate governance reforms a condition of its financial aid for Indonesia, thereby providing further evidence of a trend towards convergence (Rosser, 2003). The Indonesian government, which significantly lost power due to the economic and currency crisis, the collapse of the corporate giants, and the failing of the Soeharto regime itself, was forced to agree to external pressures (*tekanan dari luar*) in the form of extensive reform demands from the IMF in the exchange for its financial aid (Graham & Neu, 2003; Hadiz & Robison, 2005; Hill & Shiraishi, 2007). These reforms included more deregulation, reducing the number of state owned companies, introducing institutional reforms in the financial sector, fiscal restraint, trade liberalization, and increased industrial competition, dismantling Indonesian central government authority and, most relevant for this paper, the revision of financial system regulations to incorporate international best practices (Graham & Neu, 2003; Hadiz & Robison, 2005).

These external pressures (*tekanan dari luar*) in relation to convergence with global standards are clearly shown in the recommendations of the World Bank and IMF in their joint Report on The Observance of Standards and Codes (ROSC) in Indonesia (World Bank, 2005). This report focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting in Indonesia involving both a review of mandatory requirements and actual practices. The report explicitly stated that it used International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as reference points for international standards. The report explicitly recommended that the Indonesian standard-setter's objective should be full convergence with the IFRS (World Bank, 2005, p. 22). Moreover, the report stated that "the most important issue to be addressed by standard setters and the practitioners is adoption of International Standards on Auditing (ISA), since current standards are largely consistent with US GAAS instead of ISA" (World Bank, 2005, p. 22). In their later report, these international agencies again strongly demanded actions to ensure the achievement of full convergence in Indonesia by stating that "the government of Indonesia needs to take steps for full IFRS convergence since the convergence is too important to be left to a private sector organization like IAI [Indonesian Institute of Accountant], which failed to meet the IFRS convergence target a few times in the past" (World Bank, 2010b, p. 26).

2.5.1.2. Interview findings and discussion on the forces of globalization

The majority of interviewees supported that that the Indonesian decision to join global convergence movement was due to increasing globalization of financial markets. Their explanations support the global standards setters' rationales that the adoption of a single set of global accounting standards facilitates global investment decisions by enabling financial information from different countries to be compared. It is also mentioned that the convergence not only enhances international comparability of financial statements and improves international capital flows, but also decreases financial reporting costs for multinational enterprises (Doupnik & Perera, 2009). For example, one interviewee explained:

> *For sure it's a consequence of globalization [...] Because we are a member of IFAC [...] It is the commitment, we have to follow one set of standards namely auditing, profession and accounting.... (Interviewee 2, a partner in a Big Four accounting firm and a former member of the Public Accountants Professional Standards Board).*

This was reinforced by another interviewee:

> *There are some reasons. First, because Indonesia joined G20 and, as a member, Indonesia has to commit to one of the points related to the adoption of internationally accepted accounting standards. So, we have no other option but to comply. Another one is based on the global development that many countries adopt IAS/IFRS, thus, as a part of the world, we have no choice. We also have to acknowledge this existing development. Even more if the concerns are also related to capital flow [...] It will definitely be affected by it. If we want to have a smooth inflow and outflow of capital and to make it easier for investors to read financial statements, the easiest way is to apply accounting standards that are relatively the same (Interviewee 9, an associate professor in a large metropolitan university and a member of Financial Accounting Standards Board).*

On further probing, the majority of interviewees shared their beliefs that politics and external pressures play a more important role with respect to convergence. The interviewees further explained that the forces of globalization and external pressures (*tekanan dari luar*), especially demands from international agencies and standard-setting bodies, motivated Indonesia's decision to join the rush toward convergence. Moreover, given the political nature of the decision, this paper's findings reveal that a significant number of interviewees demonstrate their concerns about the relevance and usefulness of convergence to Indonesia due to its Anglo-American biases and the conflict of interest and power dependence involved in the global standards-setting process. This is aptly explained by one interviewee:

> *I sometimes think that the emerging economies are often being pressured [...] The developed countries created various reasons so that they would have competitive advantages, like the adoption of IFRS these days.... (Interviewee 2, a partner in a Big Four accounting firm and former member of Public Accountants Professional Standards Board).*

This was further supported by another interviewee:

> *I see that big accounting firms with international branches are enjoying greater advantages because they have the resources to be able to make comparison of similar activities and issues regarding the application of IFRS, they have better access [...] Most listed companies in Indonesia are audited by Big Four accounting firms. Smaller accounting firms have to find a way to justify clients' accounting approaches whether they comply with IFRS or not. Unfortunately, they have disadvantages compared to the Big Four firms in term of resources. Moreover, in these recent years, there are pressures to reduce audit fees of clients due to the economic crisis.... (Interviewee 5, a senior auditor in a Big Four accounting firm).*

The emotional responses above reveal that concerns about the relevance and usefulness of convergence to Indonesia remain because Indonesia is perceived to be at a comparative disadvantage when trying to protect its "public interest" against the conflicting Anglo-American influence of convergence. This paper's results support the criticisms about the Anglo-American biases of convergence which are evidenced in its emphasis on capital market, fair value measurement and accountants' professional judgments, as mentioned earlier (Gallhofer & Haslam, 2007; Perry & Noelke, 2006). The results show that this has led to strong perceptions about the powerful political power of Anglo-American representatives in the political economy including the global standards-setting process. Importantly, the results support that the rush toward convergence has reinforced concentration of accounting services, and thus benefitted large Anglo-American accounting firms and strengthened the Anglo-American dominance (Cooper et al., 1998; Jang, 2005; Sikka, 2001; Suddaby et al., 2007). It is suggested that political dominance defines access to critical resources, which are perceived to be mobilized to influence the standard-setting process towards greater acceptance of convergence (Heidhuess & Patel, 2012b).

The next subsection reinforces these findings with respect to concerns about the relevance and usefulness of convergence to Indonesian "public interest" in relation to Islamic-related issues on convergence of financial reporting. The background information about Islam and its implications on Anglo-American accounting is provided and followed by related findings from the interview.

2.5.2. Islamic Convergence of Financial Reporting

2.5.2.1. Background information

As noted earlier, as the largest Islamic country in the world, a holistic examination on the unique context of Indonesia cannot be conducted without incorporating the influence of Islam and Islamic law (*Sharia*). The basic *Sharia* principle is unity (*tawhid*) which demands total dedication to the will of God and encompasses both submission and a mission to comply with the Islamic *Sharia* in every aspect of life (Baydoun & Willett, 2000). The *tawhid* concept has implications for social life in that Islamic followers are required to put emphasis on society as a whole, that they should comprise a collective population (*ummah*). That is, *tawhid* in everyday life and in society directs followers to be one united society, with a strong networking relationship with each other (Askary & Jackling, 2004b; Sulaiman & Willett, 2003). The *tawhid* concept also provides insight into the Islamic view that an individual's right should not override the interest of society. It is explained by the recognition of individual right in Islam; however, the individual is required not to think about oneself (Askary, 2004). Another important concept in *Sharia* is balance and justice (*adl*), which means doing things in a proportionate manner and avoiding extremes, and has an obvious application in business activity (Beekun & Badawi, 2005). In Islam, trade should be by mutual consent, with emphasis on contractual certainty to eliminate ambiguity (*gharar*) that can potentially be abused (Beekun & Badawi, 2005).

In relation to commercial activities, the prohibition of *riba* is perhaps the most important and controversial aspect of *Sharia* and Islamic accounting. It is explained that interest is prohibited not because Islam does not see it as a way to turn excess capital into profit, but because of a deeper concern for the moral, social and economic well-being of society, since it creates profit without work, and it does not share the risk between the lender and borrower (Al-Qaradawi, 1985, p. 265–270 as cited by Williams & Zinkin, 2010). This provides challenges to various interest-related concepts such as the time-value of money and fair value measurement in Anglo-American accounting (Hamid et al., 1993). Interest represents an important concept in IFRS, the time value of money. The time value of money aims to allow users to evaluate the "ability of the entity to generate cash and cash equivalents in the future" often require the use of discounted future cash flows to measure assets and liabilities (ACCA, 2010; IASB, 2010). This also has implications for the application of fair value measurement since IFRS requires the use of valuation techniques that largely involve the calculation of net present value of future cash flows discounted at an appropriate rate of interest as an alternative for fair value measurement when active markets do not exist (ACCA, 2010).

Moreover, *zakat*[5] payment (the religious levy), one of five basic tenets of Islam, provides insights that Islamic accounting is consistent with asset-liability rather than the revenue-expense approach in accounting. This, in turn, shows that *Sharia* is largely in conflict with the accrual basis for revenue recognition in Anglo-American accounting (Lewis, 2001). The accrual basis that entails recognizing revenues in the period in which it was earned rather than in which it was received would mean that an entity may pay *zakat* for assets not yet obtained, which is inconsistent with Islamic prescription whereby loans including unearned revenues from them are exempted from *zakat* (Lewis, 2001). This inconsistency has further implications for the objectivity and matching concepts which emphasize on the revenue-expense approach of financial reporting in order to serve economic decision making of users for their own interests instead of the Islamic concern of *zakat* payment (Adnan & Gaffikin, 1997).

Importantly, the primary objective of financial reporting in Islam is accountability of *zakat* payment which is inconsistent with facilitating economic decision making of investors in the Anglo-American accounting (Adnan & Gaffikin, 1997; Hamid et al., 1993). It is suggested that financial information provided in Anglo-American accounting, such as those related to results of operation, financial position, cash flow and other subsequent financial information, are not sufficient for Islamic objective. Accounting reports in Islam

[5] *Zakat* is an obligation to give alms. Islamic followers pay zakat to attain purity in wealth and are spiritually satisfied to perform this obligation, which is largely in contrast to the concept of tax in Anglo-American (Baydoun & Willett, 2000). The commonly accepted amount of *zakat* is a one fortieth (0.25 percent) assessment on assets held for a full year, after a small initial exclusion (*nisab*) (Lewis, 2001, p. 118).

need to encompass financial and nonfinancial information including those in relation to *zakat* payable, the degree to which justice and benevolence are taken into account in the business, policies related to employees, the influence of business on the environment and compliance with Islamic code of ethics (Baydoun & Willett, 2000; Gambling & Karim, 1986; Gambling & Karim, 1991; Kamla, 2009; Kamla et al., 2006; Kamla & Rammal, 2013; Lewis, 2001; Mirza & Baydoun, 2010). Furthermore, the Islamic emphasis of disclosing all relevant information for accountability to God and society provides challenges to the concept of conservatism. The application of the conservatism concept is suggested to increase risk of presenting misleading information due to its nature in choosing the lowest values of assets and the highest values of expenses, or reporting expenses earlier than later and recognizing revenues later than earlier (Mirza & Baydoun, 2010).

Given various contradictions between *Sharia* and Anglo-American values and principles, Islamic financial institutions (IFIs[6]) were established as an effort to comply with *Sharia* in every aspect of life including finance and accounting (Kamla, 2009). In contrast to conventional banks, Islamic banks are banned from offering a fixed rate of return on deposits and charging interest on debts. Instead, the banks are characterized by a distinctive feature of profit-and-loss sharing (PLS) paradigm whereby the assets and liabilities of Islamic banks are integrated in the sense that the banks share profits and losses with depositors and debtors share profits and losses with the banks (Chong & Liu, 2009). Consistent with this feature, Islamic banks offer various Islamic financial products such as *mudaraba* (profit sharing), *musharaka* (profit and loss sharing), *murabaha* (trade with mark up or cost-plus sale), *salam* (advance purchase), *istisna* (purchase order), and *ijara* (lease financing).

To facilitate financial reporting of Islamic banks, an international standards setting body, namely, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), was established to develop accounting, auditing, and *Sharia* standards for Islamic banks. As earlier noted, the AAOIFI is supported by 200 institutional members from 40 countries including central banks, IFIs, and other participants from the international Islamic banking industry. The AAOIFI has issued a total of 88 standards which include 26 financial accounting standards (FAS), 48 Sharia standards, 5 auditing

[6] The terms Islamic financial institutions (IFIs), Islamic banks and *Sharia* banks are used interchangeably for the remainder of this chapter.

standards, 7 governance standards and 2 codes of ethics (AAOIFI, 2014). These standards have been adopted in the Kingdom of Bahrain, the Dubai International Financial Centre, and in Jordan, Lebanon, Qatar, Sudan and Syria. It is also stated that relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements (AAOIFI, 2014). Importantly, the growth of a global Islamic banking industry offers opportunities to conduct strategic alliances with international financial institutions. Indeed, this industry has attracted internationally reputable banks such as Citibank, HSBC, BNP-Paribas and Deutsche Bank, to operate "Islamic windows" or business units within conventional banks (Khan & Bhatti, 2008).

AAOIFI's standards are largely in conflict with the global accounting standards especially in regard to interest and the concept of the time value of money that is not recognized in Islam. The increasing adoption of AAOIFI's standards shows a growing movement towards Islamic convergence of financial reporting and represents challenges for the global convergence of financial reporting (Hamid et al., 1993; Lewis, 2001; Vinnicombe & Park, 2007). The increasing concerns about conflicts between global convergence and Islamic convergence is evidenced in a joint report by KPMG and the Association of Chartered Certified Accountants (ACCA) that calls for the IASB, the AAOIFI and other Islamic financial standard-setters and regulators to work together to develop guidelines and standards to harmonize financial reporting (ACCA, 2012).

In Indonesia, the important influence of Islam is clearly shown by the growth of Islamic banks, commonly known as *Sharia* banks in the country. The operation of *Sharia* banks in Indonesia started well before a formal legal base for *Sharia* banking operation came into force. Before 1992, several non-bank financial institutions that applied a share-base contract had been founded. This indicates a public need for financial institutions applying *Sharia* principles in their operations. The government has implicitly allowed *Sharia* banking operations in the Law No. 7 of 1992 concerning banking which is elucidated in the Government Decree No. 72 of 1992 relating to Banks Applying Share-Base Principles (Republic of Indonesia, 1992). This set of regulations served as the legal foundations for *Sharia* banking operations in Indonesia (the new era of dual banking system). During the period between 1992 and 1998, only one *Sharia* commercial bank and 78 *Sharia* rural banks came into operation. In 1998, Law No. 10 of 1998 amending Law No. 7 of 1992 on banking came into force to give a stronger legal foundation to the existence of a *Sharia* banking system (Republic of Indonesia, 1998). The new Law No. 23 of 1999 concerning Bank of Indonesia authorizes Bank of Indonesia to conduct its banking authority role according to *Sharia* principles (Bank of Indonesia, 2002, p. 4; Republic of Indonesia, 1999).

To date, there are 11 Islamic banks with 1,801 offices, 24 Islamic business units with 524 offices and 158 Islamic rural banks with 395 offices (Bank of Indonesia, 2013). In the 2012, the assets of Islamic banks in Indonesia had grown 35 percent and, by 2013, the industry has combined assets of 22.95 million dollars compared to 471.7 million dollars of 120 conventional banks' assets in Indonesia (Reuters, 2014; The Jakarta Globe, 2013). There are growing opportunities to invest in Islamic stocks, bonds and money market instruments in Indonesia. For example, the Indonesian Stock Exchange (IDX) offers 242 *Sharia*-compliant stocks. Moreover, the IDX has reported a significant growth in *sukuk* (Islamic bonds) trading over the years. The Indonesian government also issued the debt sovereign *sukuk* at the end of 2006. Further, the Commerce International Merchant Bankers (CIMB) Group has launched the first Islamic unit trust funds to provide investment opportunities to Indonesian investors in *Sharia* compliant stocks, bonds and money market instruments (Khan & Bhatti, 2008, p. 718).

Given the increasing importance of Islamic banking in Indonesia, the Bank of Indonesia initiated the preparation of *Sharia* accounting standards by issuing the decree of the Governor of Bank of Indonesia No. 1/16/KEP/DGB/1999. This decree stated that the team for developing *Sharia* accounting standards for Islamic banking consists of the Bank of Indonesia, the Financial Accounting Standards Board of the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia*—IAI), Bank Muamalat Indonesia and the Ministry of Finance (Bank of Indonesia, 1999). In May 2002, after about 10 years of Islamic banks in Indonesia, the Indonesian Institute of Accountants launched the first *Sharia*-related Statement of Financial Accounting Standard No. 59 to be used by Islamic banks to the exclusion of other Islamic financial institutions (*Lembaga Keuangan Syariah*, LKS) such as Islamic insurance and cooperatives. Given the growth of Islamic banking, the Indonesian Institute of Accountants established the Committee of *Sharia* Accounting in 2005 as a part of the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan*, DSAK) specifically to prepare accounting standards for IFIs. The Indonesian Institute of Accountants issued another six standards applicable for all IFIs in June 2007 and two more in 2009. In 2010, the Indonesian Institute of Accountants decided to establish the *Sharia* Accounting Standards Board (*Dewan Standar Akuntansi Syariah*—DSAS) that has status equal to the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan*—DSAK). To date, the DSAS had issued a Framework for presentation and *Sharia* financial reporting, nine *Sharia* standards (No. 101-109) and three exposure drafts.

2.5.2.2. Interview findings and discussion on Islamic convergence of financial reporting

Consistent with the earlier discussion with regard of various contradictions between *Sharia* and Anglo-American values and principles, this paper's findings support that Islam presents challenges to global convergence especially with respect to consistent application of global accounting standards such as IFRS. The paper's findings show that many interviewees agreed that IFRS are based on values and principles that are not consistent with *Sharia*, and thus *Sharia*-based financial accounting standards are needed for financial reporting of IFIs. As the consequence, the interviewees supported the requirement for IFIs to comply with *Sharia* Financial Accounting Standards developed by the *Sharia* Accounting Standards Board (*Dewan Standar Akuntansi Syariah*—DSAS) of the Indonesian Institute of Accountants. Furthermore, it is explained that many conventional banks in the country have established *Sharia* units or branches to attract customers who prefer to do business with IFIs. The interviewees revealed that this then leads to problems in preparing consolidated financial statement between entities that apply different kinds of financial reporting standards, namely, IFRS-based and *Sharia* Financial Accounting Standards, and also Standards for Entity without Public Accountability (equivalent to IFRS for Small-Medium Enterprises). Indeed, financial institutions are highly regulated in Indonesia, both listed and non-listed banks having to maintain accounting records and prepare financial statements according to IFRS. This paper's findings show that the application of different sets of financial reporting standards in Indonesia creates additional problems in relation to convergence. In particular, contradictions emerged when financial institutions wanted to consolidate financial statements between conventional and *Sharia* divisions. This is aptly explained by one interviewee:

> *Those are two different approaches, their fundamental frameworks and conceptual frameworks are different. Therefore, the big Financial Accounting Standards and Standards for Entity without Public Accountability [Financial Accounting Standards for SMEs] cannot be consolidated, because they have different comprehensive basis.*

Then, the big Financial Accounting Standards and Sharia Financial Accounting Standards cannot be consolidated [...] Financial reports of the subsidiary are attached as appendices. I think that is enough.... (Interviewee 1, a partner in a non-Big Four accounting firm and a former member of Financial Accounting and Public Accountants Professional Standards Board).

This issue was further supported by another interviewee:

If it is a Sharia unit or subsidiary then it has to be consolidated. The problem is the disclosures appear to be inconsistent between one bank and the others, one treatment is to combine them, another is to treat it as a part, the other is as a different section [of the financial statement]. The formats are not the same, even if they are being audited by the same accounting firm.... (Interviewee 7, an associate professor in a large metropolitan university, a former member of Public Accountants Professional Standards Board, and a business consultant).

It is important to note that, although Islam comprises 87 percent of the Indonesian population, Islamic banking has access to only 20 percent of formal financial institutions and holds only 4.8 percent of total banking assets in the country[7] (Central Inteligence Agency, 2014b; Reuters, 2014). Thus, Indonesia has significant potential for future market development in the industry (Reuters, 2014). Particularly relevant for global convergence, in a survey on accounting for Islamic financial transactions and entities conducted by the Asian-Oceanian Standard-Setters Group (AOSSG), standard-setters in Indonesia reported that, along with convergence with IFRS, Indonesia applies and will continue to apply a separate set of *Sharia* Financial Accounting Standards for Islamic banks (AOSSG, 2011). Thus, issues related to conflict between global convergence and Islamic convergence will remain and are likely to be more pronounced in the future.

2.6. Internal Contextual Environments Influencing Convergence in Indonesia

This section focuses on various internal environment of Indonesia to highlight domestic tensions and issues with respect to global convergence due to contextual inconsistencies between of Indonesia and Anglo-American countries. This section focuses on an analysis of five aspects of internal environment in Indonesia, namely, societal, organizational, individual, professional and accounting, to highlight domestic tensions and issues with respect to global convergence due to contextual inconsistencies between of Indonesia and Anglo-American countries. The next subsection focuses on societal environment of Indonesia. The section presents background information and related findings from

[7] For comparison, Islam dominates 60 percent of 30 million population of Malaysia and Islamic banking has assets over 20 percent of total banking assets in the country (Reuters, 2014).

interview with a focus on the unique aspects of Islam and the influence of Javanese *adat* in Indonesia.

2.6.1. Societal Environment: The Unique Aspects of Islam and The Influence of Javanese Adat in Indonesia

2.6.1.1. Background information

Literature has shown that Islam in the context of Indonesia is characterized by diversity (Thomas, 1988; Von der Mehden, 1986). This is in contrast to the simplistic assumption, that homogenous Islamic influences and values exist within and across Islamic countries, that has largely dominated accounting research in Islamic countries (Al-Shammari et al., 2008; Arzova & Kidwell, 2004; Askary & Jackling, 2004a; Beekun et al., 2007; Hassan & Christopher, 2005; Muhamad, 2009; O'Leary & Mohamad, 2006; Saat et al., 2009; Srnka et al., 2007). Indeed, Islam in Indonesia has not only been divided between purist Muslims and those influenced by pre- and non-Islamic beliefs, but much more importantly between conservative and modernist interpretations of Islam (Thomas, 1988, p. 897).

Politically, the Indonesian government is officially neutral regarding any specific religion, although all supposedly must accept one of the faiths recognized by the State. At the same time, the government has tended to reflect the beliefs of those who follow the more mystical Javanese interpretations of Islam known as *Kepercayaan*. Indeed, anthropologists have shown that although the largest ethnic group, the Javanese, comprising almost 50 percent of the population, are dominated by Islamic followers (Muslims), the Islamic beliefs and practices of nearly two-thirds of the Javanese are so diluted with Hinduism and animism that they practically form a separate religion (Liddle, 1996). This group is known as *Abangan* as opposed to *Santri*, the purist Javanese Muslims (Liddle, 1996). Thus, there is a heterogeneous pattern of Islamic belief in Indonesia, with those in control of the government representing the *Abangan* with their *Kepercayaan* beliefs (Von der Mehden, 1986). This category of *Kepercayaan* is employed in Indonesia to define those conventional Islamic followers who have not been as strongly influenced by the Javanese mystical beliefs. As such, conventional Islamic followers have traditionally formed a minority on the heavily populated island of Java and a majority on the outer islands. They have also been historically divided by traditionalist and modernist interpretations of Islam as well as by Islamic political parties, but have more recently been united by what they see as the threat of a *Kepercayaan* dominated government (Von der Mehden, 1986).

Instead of Islam, the Javanese *adat* is more influential when talking about dominant values in Indonesia for several reasons. First, as mentioned before, ethnic Javanese account for about half the country's population. Moreover, although the island of Java constitutes only one seventh of the total area of Indonesia, it contains two-thirds of the population, making it the most densely populated island in Indonesia (Peacock, 1973; Tsamenyi et al., 2008, p. 65; Yunus & Akuntansi, 1990). Because of the dominant size of this community, the homogeneity of its values and their influence on the nation's capital, Javanese *adat* influences the way of life of most Indonesians, and the Javanese dominate socio-cultural, political, legal and business activities in Indonesia (Magnis-Suseno, 1997). Since colonial times, the Javanese have been the core ethnic community and this dominance has been emphasized since independence. Java is, therefore, central in the development of modern Indonesia. For centuries, Java has been the cultural, political and economic center of Indonesia. For example, most of Indonesia's leading higher education institutions are located on Java and the island has more development than any other Indonesian island (Tsamenyi et al., 2008).

Second, Indonesian values have been heavily influenced by Indonesia's first and second presidents, namely, Soekarno and Soeharto, both of whom practiced personal rules that can be traced to the tradition of Javanese kings (*priyayi*) (Liddle, 1996). One important example is the use of *Pancasila* (Five Principles) as state ideology in the Soeharto era that lasted for 32 years from 1966 to 1998. The principles consist of Belief in one God, Humanitarianism, Indonesian Unity, Democracy, and Social Justice. This ideology was included as a part of the opening section of the 1945 Constitution. Soeharto, like Soekarno who introduced this idea in 1945, insisted that *Pancasila* was an indigenous product and reflected the national culture of Indonesian society. Importantly, Soeharto used *Pancasila* as an ideological weapon to define the boundaries of acceptable political contestation for both anti-Islamic and anti-Communist purposes (Liddle, 1996, p.79). It is important to note that during the New Order Era of President Soeharto (1966-1998), Indonesia experienced what was commonly known as "Javanization." This refers to how Javanese belief and practices permeated Indonesian political and daily lives (Tsamenyi et al., 2008). Indeed, in a paper on Javanese cultural, literary and political forms in the Soeharto era, Mulder (1994, p. 44) concluded that a "Javanese Indonesian" culture is emerging, one that represents the *priyayi* cultural values that give priority to order, hierarchy, harmony and unity. Moreover, "government propaganda and moral education activities are so distinctly Javanese as to warrant the idea that a new moralizing quasi-regal tradition has been established" (Mulder, 1994, p. 44).

Javanese *adat* is acknowledged to have a complex code of etiquette and respect. Moreover, conflict avoidance is emphasizes in social relationships based on two fundamental principles, "harmony within hierarchy" (*rukun*) and respect (*hormat*) (Chariri, 2008, p. 2). It is important to note that in a social relationship, there is almost no room for individualism in Javanese society. The view is based on the belief that social harmony can be threatened by individualism, diversity and conflict (Mulder, 1994). Therefore, Javanese *adat* emphasizes collectivism and relationship (*relasi*). Indeed, it is common for Javanese to "develop networks of acquaintance: workmates, customers, relatives, friends, neighbors, and colleagues" (Yudianti et al., 1997, p. 104). To exercise collectivism, individuals act both in social and in business activities on the basis of the concept of "*gotong-royong*" (mutual assistance) and "*musyawarah*" (unanimous decision). "*Gotong royong*" refers to a philosophy that says people must help each other; whereas "*musyawarah*" refers to the fact that all decisions should be made only after a consensus or compromise has emerged (Magnis-Suseno, 1997).

In particular, the key issue of the influence of Javanese *adat* on an organization is that there is a high level of centralization of power, with authority being traced to a single individual, which is also related to a paternalist culture or *Bapakism* (Rademarkers, 1998; Tsamenyi et al., 2008). The Javanese *adat* of respect (*hormat*), emphasizing the importance of proper behavior to those who considered have a higher social structure, provides insights into this centralization of power and paternalism (*Bapakism*) and, thus, "crony capitalism" that are prevalent in Indonesia. For example, in an organization, the CEO who is perceived by his subordinates as a father (*Bapak*) figure, makes all important decisions and all employees have to obey such decisions (Mulder, 1983). As a result, in situations where conflict of interests arise, for example, top management's interest in better financial information versus the accountants' interest in complying with standards, it is most likely that the outcome will be the CEO's preference since the accountants are more dependent on top management. Prior research has provided evidence of the powerful influence of the Javanese *adat* of *Bapakism*, harmony within hierarchy (*rukun*), respect (*hormat*), the importance of social relations, hierarchy in society, benevolent leader–loyal follower, compromise to avoid conflict and preference for an indirect approach (*ewuh pekewuh*) in organizations and accounting practices in Indonesia (Chariri, 2008; Efferin & Hopper, 2007; Rademakers, 1998; Tsamenyi et al., 2008; Wahyudi, 2009).

The Javanese *adat* emphasis on "harmony within hierarchy" (rukun), conflict avoidance, respect (hormat) and social relation are clearly in evidence in the dominant legal view in Indonesia. In contemporary Indonesia, Roman Dutch law assumed a dominant place in the country's legal system. However, the various legal orders of the pre-colonial era were also sustained, creating a situation of legal pluralism. The major sources of Indonesian law are *adat*, *Sharia* and surviving Dutch colonial law and European jurisprudence (Perera & Baydoun, 2007, p. 210). However, it is important to note that the Indonesian view of authority is heredity, filled with family and religious substance, and concepts of law were bound to eternal orders of family, locality, religion and status, changeable in fact but not in theory (Lev, 2000, p. 163). It is not a distinct idea of law, but rather concepts of family, locality, religion and status that give meaning to society (Lev, 2000, p. 163). The traditional Indonesian rarely views written law as vital to social cohesion. Moreover, there is a source of law that is seldom mentioned in Indonesia, namely, the living law of actual practice. It is suggested that the existence of this real law "operates within the economy through an intricate network of personal and family relationships, bribes, pay-offs, and innumerable ad hoc deals," providing further understandings of "crony capitalism" in Indonesia (Lev, 1965, p. 304).

Importantly, the Javanese *adat* provides richer insights into the importance of compromise as a primary method of conflict resolution (Lev, 2000, p. 186). Indeed, Lev (2000, p.186) explained that the *adat* promotes the manner of conflict resolution by paying more attention to procedure than substance. Legal rules and considerations of fairness serve as minimum requirements for maintaining the integrity of social harmony. But within these limits, significant flexibility exists for negotiation, and it is with possibilities thus made available that reconciliation and mediation are concerned. Individuals who talk about rules as if they were absolute are liable to be considered obstructers, stubborn trouble-makers, anti-social fools, or worse (Lev, 2000, p. 188). What seems to be underlined is not the application of given rules, but the elimination of conflict which may cause social tension or disorder (Lev, 2000, p. 186). Prior psychological study has shown support for cultural influence on responses to interpersonal conflict. In particular, Haar and Krahe (1999) compared adolescents' responses in conflict situations between Germany and Indonesia.

The study found that Indonesians showed a stronger tendency to submissive responses in conflict involving older persons such as fathers compared to their German counterparts (Haar & Krahé, 1999). Their study concluded that the findings show the significant influence of Javanese *adat* of harmony on Indonesian adolescents today, especially the importance of respect to other persons who have higher social status such as older persons in the family.

It is also important to take into account the role of the Indonesian Chinese in order to gain holistic insights onto this unique context. Despite being an ethnic minority, approximately 2 percent of the population, and having suffered extensive discrimination, the Indonesian Chinese own approximately 50–70 percent of Indonesian private domestic capital (Efferin & Hopper, 2007; Tsamenyi et al, 2008). The domination of Indonesian Chinese can be traced back to the Dutch colonization era. The Dutch brought a great number of ethnic Chinese to Indonesia to supply the manpower needed to control trade in the archipelagos. By so doing, the Dutch were able to maintain restrictions on indigenous Indonesian' involvement in commerce, and thus preserve their monopoly power. The Dutch granted the Chinese special rights to the retail trade, coastal traffic, and the majority of the tax gathering monopolies (Siddik, 1980, p. 72). The Indonesian Chinese continue to concentrate in business activities through Family-owned Businesses (FOBs) which in turn maintain their domination in contemporary Indonesian economy.

Chinese Indonesian can be classified into *totok* and *peranakan* (mixed/*jiaosen*). *Totoks* still practice and educate their children in Confucian values, speak Mandarin or other Chinese dialects, and celebrate Chinese traditional events. Most embrace Buddhism or Confucianism. In contrast, *peranakan* are mainly Christians, although some embrace Islam, follow few Chinese traditions in daily life, speak little or no Chinese dialect, and adopt local customs. Their culture is a mix of Western, local and Chinese influences. Younger Chinese are increasingly becoming *peranakan* but many Chinese parents still teach Confucian values to their offspring. Many *peranakan* separate religion and culture, confining religion to personal faith, whereas culture defines proper social conduct (Efferin & Hopper, 2007, p. 231).

Javanese *adat* and the dominant values of Indonesian Chinese are similar and, for *jiaosen* Indonesian Chinese, increasingly intertwined. The Chinese value of *jen* (a Confucian concept meaning to love man), personal trust, reputation, face and family reliance, and

Javanese values of etiquette and *rukun* both presume that reciprocal social ties underpin relationships. Both subjugate individual rights to collective interests to maintain social order and harmony, and emphasize social hierarchy. Javanese etiquette (in linguistic form and *andap-asor*) regulates behavior according to social hierarchies. *Bapakism* entails mutual obligations between leaders and subordinates, and obedience, consistent with Chinese *li* and *hsiso* values (Efferin & Hopper, 2007, p. 254).

2.6.1.2. Interview findings and discussion on the unique aspects of Islam and the influence of Javanese **adat** *in Indonesia*

The findings of this paper show that majority of interviewees agreed that, in general, Javanese *adat* has a stronger influence than that of Islam in Indonesia. As one interviewee aptly explained:

> *Islamic followers in Indonesia do not reflect the true Muslims. It is the same as Saudi Arabia, an Islamic country but many of the behaviors there are not Islamic […] The number of Islamic followers in Indonesia is not a proxy of [the strong influence of] Islamic value [in the country], [it] cannot be a proxy […] I agree, it is the Javanese values, compromise is from Javanese values. If we see the cultural values in Sumatra [such as the Acehness, Batak and Minangkabau ethnic groups] or Kalimantan [such as the Banjar], they are more vocal, confident in expressing opinion. But the Javanese values, and they are dominant in all Indonesia, emphasize on compromise, caution in releasing information […] In Islam, it is clear that accountability is a very important concept, mandate (amanah) is to be properly accounted. It is us who are not behaving as we should [as Muslims] […] We often generalize things, confusing Javanese values with Islamic values…. (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).*

This was further reinforced by another interviewee:

> *Indonesians are not practicing pure Islamic values […] Before Islam came, we already had custom like Hinduism […] Thus, there is interaction between them […] The fact is, Javanese values are inconsistent with the transparency, they are more on family, colleagues. Just see the way their Kings ruled, the people just said "inggih, inggih" [yes, in Javanese language] […] In Islam you cannot do that, when something is wrong then you say it is wrong…. (Interviewee 13, a senior lecturer, a former professional accountant, and a business owner).*

Consistent with anthropological literature, the findings indicates that Islam in Indonesia is largely mixed with indigenous beliefs to develop a syncretic religion, and thus accounting research needs to incorporate influential indigenous beliefs and values (*adat*) in providing a rich understanding of the unique aspect of Islam in Indonesia (Geertz, 1960; Peacock, 1973; Thomas, 1988). The findings also provide challenges to the simplistic assumption that homogenous Islamic influences and values exist within and across Islamic countries, which has dominated prior research in Islamic countries (Al-Shammari et al., 2008; Arzova & Kidwell, 2004; Askary & Jackling, 2004a; Beekun et al., 2007; Hassan & Christopher, 2005; Muhamad, 2009; O'Leary & Mohamad, 2006; Saat et al., 2009; Srnka et al., 2007).

Moreover, this paper's findings show that the strong Javanese influence is evidence in accounting practices in Indonesia, and thus raise questions on convergence and its objective of comparability of information. The majority of interviewees showed the application of global accounting standards and accounting practices in Indonesia are strongly influenced by Javanese emphasis on "harmony within hierarchy" (*rukun*), respect (*hormat*), relations (*relasi*) and conflict avoidance. Importantly, the Javanese emphasis of personal relation (*relasi*) leads to a preference for secrecy which is inconsistent with the important Anglo-American principle of transparency. This has important implications for the effectiveness and usefulness of convergence to Indonesia especially given the fact that SOEs, FOBs and SMEs dominate the business environment in Indonesia (discussed further in the subsection on organizational environment). Moreover, the Javanese emphasis of *rukun* that leads to preference for compromise in resolving conflicts is also largely evidenced in accounting practice in Indonesia. Indeed, a large number of interviewees explained that compromise (*kompromi*) is often chosen as a solution when being required to do something that is not consistent with the internalized values. As one of the interviewees aptly explained:

> *There is a cultural factor, when we believe more to personal relationship than written evidence [...] I trusted you more, thus I recruited you straight away. No need to use any kind of tests. But there are formalities, I am required to do some [formal] procedures. Then, I just pretended as though as all of those had been done. The fact was they had not been done.... (Interviewee 10, an associate professor in a metropolitan university and a consultant).*

This was reinforced by another interviewee:

> *The fact is, until present time, at least my clients have not prepared yet [for the convergence]. Some clients have, but only sporadically. It means that when facing disagreement with auditor, the clients become curious and then are motivated to look for a third opinion. The main problem is that clients do not give priority on financial statements. Financial statements are not an important issue for them. The fact is many clients contacted us to revise their manuals in accordance to IFRS close to the end of 2012. It raised questions whether they are really care or just want to comply.... (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).*

The findings show that, given the emphasis on personal relations (*relasi*), financial reporting is largely viewed as merely an administrative requirement. The findings also show that compromise is chosen to resolve conflicts between conflicting values, principles and interest, and thus show an emphasis on compliance to the letter rather than the substance of the standards. The findings provide insights that the application of global accounting standards in Indonesia can be referred to the importance of differentiating the "text" and the "context" of the existing legal system in the country. "All have 'text', consisting of rules to be followed and all have a 'context' in which these rules are interpreted and implemented, and thus adjusted to social, political, and economic needs and interests" (Lindsey, 1999, pp. v, foreword).

The next subsection discusses the convergence-related issues with respect to organizational environment of Indonesia with a focus on the importance of State-Owned enterprises (SOEs), Family-Owned Business (FOBs) and Small-Medium Enterprises (SMEs). The subsection is started with the background information and is followed by the related findings from the interview.

2.6.2. Organizational Environment: The Importance of SOEs, FOBs, and SMEs

2.6.2.1. Background information

As noted earlier, State-Owned enterprises (SOEs), Family-Owned Business (FOBs) and Small-Medium Enterprises (SMEs) play a major role in the Indonesian economy. There are 141 SOEs with total assets approximately 40 percent of gross domestic product (GDP) and total revenues nearly 20 percent of the Indonesian GDP (Ministry of SOEs, 2010). SOEs contributed 30 percent of the total market capitalization on the Indonesia Stock Exchange (IDX) (Ministry of SOEs, 2010). This shows that the Indonesian government is the primary user of financial reporting for economic planning purposes. Moreover, 80 percent of large companies in Indonesia are dominated by FOBs. FOBs also dominated 67 percent of listed companies in Indonesia while only 0.6 percent of listed companies are widely held (Claessens et al., 2000; Samboh, 2011). Moreover, 99 percent of businesses in Indonesia are SMEs (World Bank, 2005). The unique business environment of Indonesia has implications for issues such as "crony capitalism," related-party transactions, harmony within hierarchy, and secrecy of information. Importantly, the Indonesian business environment raises questions on the relevance and usefulness of convergence to Indonesia.

2.6.2.2. Interview findings and discussion on the importance of SOEs, FOBs, and SMEs

The majority of interviewees showed concerned about quality of transparency of financial information in SOEs in Indonesia. It is a general perception among the interviewees that transparency is not adequately promoted in SOEs. The concerns remain despite an increasing number of SOEs have become listed companies, which are subjected to various rules and regulations which are designed to improve their corporate governance (CG) (World Bank, 2010). The interviewees agreed that the Javanese emphasis of personal relation (*relasi*) is pervasive in the SOEs, being embraced by the top management and then promoted to most of their members. Many interviewees also provided support for the concerns by explaining that extra efforts are usually needed to audit these entities. This is showed by an explanation of one interviewee:

> *It is different because our country is banking oriented, not capital market oriented. In recent years, most companies that decided to be listed in the capital market are the SOEs. But the SOEs' [decisions] have different context, it is because the Ministry of SOEs thinks that with the entry to capital market the SOEs' governance will be better…. (Interviewee 7, an associate professor in a large metropolitan university, a former member of Public Accountants Professional Standards Board, and a business consultant)*

Another interviewee also provided support for this issue:

> *Political pressures from stakeholders [in SOEs] are stronger compared to those in other types of companies […] The SOEs are treated as automatic teller machines, I think that is true. SOEs as the cash cows, I think that is true […] But the SOEs have a good "form," they have audit committee, remuneration committee, etcetera […] They all exist. If we see the transactions, all exist; documents, bidding, they all exist. But, it is [the reality] behind those all that should be checked. That is the risk in auditing the SOEs…. (Interviewee 2, Partner of a Big 4 Accounting Firm and former member of Public Accountants Professional Standards Board).*

Similar concerns were also demonstrated by many interviewees with regards to financial information of FOBs in Indonesia, as aptly explained by one interviewee:

> *In general, FOBs are messy because those in the organizational structure are usually chosen not because of their [professional] capabilities. If there are new standards that required extra efforts, they usually cannot apply it. This even applies to listed companies which have background as FOBs. For SOEs, they share the same characteristic as the FOBs, [professional] capability is not a [main] requirement. So, all this time either they have smart auditors or they hire smart consultants […] In my opinion, for SOEs, we have to spend extra effort in the audit…. (Interviewee 22, a professional accountant, a former senior auditor in a Big Four accounting firm).*

Concerns have also been raised about the implications of convergence for SMEs. These are primarily related to the complexity of global accounting standards and fears that SMEs may be required to apply the IFRS-based financial accounting standards (*Pernyataan Standar Akuntansi Keuangan*—PSAK, also known as "the big financial accounting standards"). Almost no current benefit, such as the ability to access the capital market, can be expected from the adoption of IFRS by these entities. Thus, interviewees indicated support for the decision of the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan*—DSAK) of the Indonesian Institute of Accountants to prioritize the development of Standards for Entities without Public Accountability (*Entitias Tanpa Akutabilitas Publik*—ETAB, equivalent to IFRS for Small Medium Enterprises) which were released on 2011. Consistent with previous quotations, a number of interviewees perceived that the global standards-setting process is a political process dominated by Anglo-American interests (Gallhofer & Haslam, 2007; Perry & Noelke, 2006), which clearly dismisses "public interest" in Indonesia. As clearly indicated by one interviewee:

> *Not even one millionth [of the] entities are listed in the capital market. Out of 50 million entities, only 450 entities are listed companies. While there are millions of SMEs which are ready to use standards for SMEs at present [...] It is a wise thing to priorities the establishment of Standards for Entities without Public Accountability [equivalent to IFRS for Small Medium Enterprises]…. (Interviewee 1, a partner in non-Big Four accounting firm and a former member of Financial Accounting and Public Accountants Professional Standards Board).*

This issue was further supported by another interviewee:

> *The problem in Indonesia, at the end, the obligation for non-listed companies to prepare financial statements depends on whether they need capital market or not. If what they need is only loan form the bank [...] The possibility is that it [financial reporting] is not their concern. To get credit form the bank is simple [...] We once helped a friend, a doctor, who wanted to build a hospital. We conducted a feasibility study at the beginning because the bank had not trusted him yet. So he hired our [consulting] service. Now the hospital has already finished. Then, for the additional wing on the building, he did not need us anymore because the bank has already trusted him…. (Interviewee 7, an associate professor in a large metropolitan university, a former member of Public Accountants Professional Standards Board, and a business consultant).*

The quotations above highlight that global accounting standards capital are most suitable for a country with a strong capital market. They also show that, in contrast to Anglo-American countries, capital market is not the main source of capital in Indonesia. As a consequence, the findings of this paper questioned the relevance and usefulness of the adoption of global accounting standards to improve transparency and comparability of financial information in Indonesia. The findings provide support that convergence's emphasis on capital market and financial sector, and thus reinforce the criticisms about Anglo-American biases of convergence.

The next subsection focuses on actor environment of Indonesia and its implications on convergence. The subsection provides background information and related findings from the interview.

2.6.3. Actor Environment: "Crony Capitalism"

2.6.3.1. Background information

The term "crony capitalism" is widely used to describe the Indonesian economy and clearly reinforces the importance of relation (*relasi*) in Indonesia (Perera & Baydoun, 2007). "Crony capitalism" describes an economy in which success in business depends on close relationships between business and state officials. It is largely demonstrated by favoritism in state policies such as distribution of legal permits, government grants, and special tax breaks (Hughes, 1999). It is suggested that "crony capitalism" arises when political cronyism spreads into the business world, with the result that the emphasis on friendships and family ties between businessmen and the state officials influences the economy and society to the extent that it corrupts public-serving economic and political ideals.

Importantly, "crony capitalism" is said to explain the widespread corruption in the country. In Indonesia, a well-known term refers to this practice is Corruption, Collusion and Nepotism (*Kolusi, Korupsi dan Nepotisme*—KKN). To show its seriousness in eliminating corruption in the country, the government established the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*—KPK) in 2002 with The Law No. 30/ 2002 on Corruption Eradication Commission (Indonesian Corruption Watch (ICW), 2013). The economic and financial reforms conducted after the 1997 Asian crisis also aimed to improve financial transparency and reduce corruption in Indonesia. However, despite these efforts, "crony capitalism" and corruption remain a serious problem in Indonesia (Asian Development Bank, 2003; International Monetary Fund, 2010; Kristiansen et al., 2009; Mietzner, 2007; Palmier, 2006; Sherlock, 2002; World Bank, 2005, 2010a, 2010b). This is clearly indicated by the report of the Transparency International on Corruption Perception Index (CPI). The CPI, as the global indicator of public sector corruption, scores countries on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to be very clean). For the year 2013, the CPI included 177 countries and the report showed that none of the 177 countries covered in the index recorded a perfect score. Moreover, the report further said that more than two-thirds scored less than 50, which it described as "disturbing" (PINA, 2013). The report shows that Indonesia is still considered as one of the most corrupt countries in the world with a score of 32, which ranked Indonesia as 114th of 177 countries surveyed (Transparency International, 2013). As a comparison, the 1997 CPI showed that Indonesia had a score of 2.72 (on a scale of 0 to 10) and was ranked 46th out of 52 countries surveyed (Transparency International, 1997). This clearly shows that Indonesia showed no significant improvement in transparency despite various reforms since the financial crisis, 1997-1998.

2.6.3.2. Interview findings and discussion on "crony capitalism"

The majority of interviewees showed that collusion, also known as cronyism, and compromise are common practices in business organizations and used by individuals to pursue their self-interest. As discussed earlier, the domination of SOEs and FOBs in Indonesian business exacerbates issues of "crony capitalism," related-party transactions, "harmony within hierarchy" and secrecy of information. Indeed, prior research provides evidence of the powerful influence of Javanese values of paternalism, "harmony within hierarchy" (*rukun*), respect (*hormat*), the importance of family and social relations, hierarchy in society, benevolent leader and loyal follower, compromise to avoid conflict and preference for the indirect approach (*ewuh pekewuh*) in organizations and accounting practices in Indonesia (Chariri, 2008; Efferin & Hopper, 2007; Rademakers, 1998; Tsamenyi et al., 2008; Wahyudi, 2009). Leuz and Oberholzer-Gee's (2006, p. 437) study provides evidence of the "relationship-based economic systems" in Indonesia. The study shows that political connections play an important role in a firms' financing strategies, firms with strong political connections are less likely to have publicly traded publicly traded debt or equity securities abroad. The authors explained the reasons are that well-connected firms have access to favoured financing at their home country, and therefore do not need to access foreign capital markets. Besides, firms with political ties have an aversion to the transparency and scrutiny that come with publicly traded securities (Leuz and Oberholzer-Gee, 2006).

Moreover, a majority of interviewees showed concerns about the pervasiveness of "crony capitalism" in the country. Given the important of social structure in Javanese *adat*, individuals with lower social structure tend to be the ones to compromise to the interests of those in the higher social levels. Moreover, those in the possession of economic power tend to be considered to have a higher social position in the structure. Thus, these actors are perceived to be the more powerful actors in the context of financial reporting in Indonesia. This is consistent with Rosser's (2003) explanation about the balance of power between coalitions of interest influencing financial reporting Indonesia. The first coalition consists of the controllers of financial capital and their allies in Western governments and international financial institutions, while the second one consists of the strata of politico-bureaucrats who have controlled the state apparatus and the owners of major domestic conglomerates (Rosser, 2003, p. 320). These concerns were clearly indicated by one interviewee:

> *Especially in the factory [in contrast to the head office], usually a division is dominated by a certain ethnic group, especially they usually have family relations with each other. It is more obvious in FOBs [...] Yes, they [related-party transactions] are many and not [easily] visible. My previous company that was in the process of being acquired by another multinational company had these issues when the auditor found out that the financial controller owned company's stocks. Actually, it was his family who owned the stocks. The auditor questioned how come they can own the stocks so close to the acquisition date.... (Interviewee 6, a professional accountant in a multinational company).*

This was further reinforced by another interviewee:

> *I also serve as a consultant for an international institution. I am currently supervising a project performed by a Ministry and financed by loans from the international institution [...] But, can I control that the transactions documents is true? I cannot. What was happened? Transaction documents showed that there were traveling expenses for certain amount. The fact is it was never happened. All the documents are valid. Then what do I do? Then the transactions documents will be processed to prepare the financial reports. Will the reports be fair?... (Interviewee 10, an associate professor in a metropolitan university and a consultant).*

Overall, this paper's results show that although the Indonesian government is able to impose the adoption of international accounting standards and guidelines, it is the companies and professional accountants that interpret and apply these standards (Greenwood & Hinings, 1996; Scott, 2008). Thus, individuals in Indonesia use their own values in interpreting and applying the global standards in practice. Likewise, in line with power dependence theory, certain powerful actors in Indonesia who feel threatened by convergence, such as the increasing transparency required and the promotion of the "substance over form" approach might use their power to protect their interests by intervening in or manipulating the implementation of international convergence of accounting (Emerson, 1972; Molm, 1988).

Moreover, the emotional responses in the earlier quotations show that most interviewees have a perception of "hopelessness" in dealing with the issue of "crony capitalism" in Indonesia. Importantly, despite the increasing effort of convergence in Indonesia, most interviewees made clear their perceptions of the pervasiveness of conflict of interests and power dependence. As a consequence, most interviewees also showed negative attitudes and concerns regarding the effectiveness of the convergence process in improving the transparency and quality of information in the country. As the explanation of one interviewee clearly proved:

> *I'm not sure that the adoption of IFRS has significant impact on prevention or decreasing corruption, I'm not so sure […] when collusion happens, internal control (IC) is not working. Internal control is a waste when collusion happens from A to Z. Whereas, accounting will have a good output if internal control works well … (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).*

Another explanation provided support for this issue:

> *Changing the standards is easy. However, it [the financial reporting quality] will remain the same as before […] How to change something that had already taken roots, that is difficult. There is no system that is wrong, a system is created for an objective which is good. But if the wrong individuals apply the system…. (Interviewee 12, a senior lecturer in a university, a consultant, and a former senior auditor in a non-Big Four accounting firm).*

The next subsection focuses on various aspects in the application of global accounting standards by the professional accountants in Indonesia. The subsection is started with the background information and is followed by interview findings with respect to complexity of the global accounting standards; preference for legalistic approach; fair value measurement; knowledge shortfall of accountants; increasing workload of auditors; concepts of professionalism, objectivity, and independence in accounting; and differences between Big Four and non-Big Four firms.

2.6.4. *Professional Environment*

2.6.4.1. *Background information*

It is widely acknowledged that the global accounting standards are complex and hard to interpret and apply. This is especially because, as previously discussed, the IASB and IFAC adopt a principles-based approach, with an emphasis on "substance over form" in developing the IFRS, IAS, Code and IES (Alexander, 1999; Beechy, 2005; Carmona & Trombetta, 2008; Maines, 2007; Nelson, 2003; Schipper, 2003; Sunder, 2010). As principles-based standards, the global accounting standards such as IFRS contain broad principles and "uncertainty expressions" that highlight discretionary judgments by professional accountants in analyzing the economic substance of transactions. The uncertainty expressions in IFRS includes assumed beyond any reasonable doubt, probable, reasonably certain, remote, insignificant, major part, substantially, significant influence, more likely, less likely, deemed, more likely than not and control. These uncertainty expressions are often used to indicate levels of probability in prescribing the recognition, measurement and disclosure of transactions in financial reports (Chand et al., 2011; Chand et al., 2010; Chand & White, 2006; Laswad & Mak, 1999). Prior research has provided evidence on differences in professional accountants' judgments with respect to the use of uncertainty expressions used in IFRS (Agoglia et al., 2011; Chand et al., 2011; Chand et al., 2010; Doupnik, 2008; Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004).

The highly and increasingly complex nature of the IFRS, due to the use of principles-principles-based approach, and their sheer volume make the task of their application in practice even more difficult, particularly in developing countries and countries with economies in transition that lack expertise, resources and infrastructure to accomplish such a comprehensive task (UNCTAD, 2005). Research shows that convergence is likely to lead to an unnecessarily high financial burden for companies, for example, because of the requirement to prepare different sets of financial statements (Hellmann et al, 2010, p. 113).

The lack of implementation guidance and differences in interpretation of IFRS are further obstacles to accounting convergence. Schipper (2005) describes several implementation effects associated with the adoption of IFRS in the EU, including a possible increased demand for detailed implementation guidance. If the IASB declines to respond to demands for detailed implementation guidance, preparers will look to US GAAP or national GAAP for guidance, diminishing comparability, and convergence. Jermakowicz and Gornik-Tomaszewski (2006) highlight the consensus view that a lack of adequate education, training and knowledge of IFRS are important challenges of conversion in EU. A training program for staff across a company is needed to let them adopt an entirely different system of business operations, performance measurement, and communication with markets. This training will be an ongoing exercise since IFRS is a moving target (Jermakowicz & Gornik-Tomaszewski, 2006).

Moreover, the global-standards setters advocate the adoption of fair value measurement based on the valuation of assets at market prices as opposed to historical costs, which has been traditionally used in accounting (Ernst & Young, 2005; Perry & Noelke, 2006). The decision has been based on the belief that the fair value measurement increases market efficiencies and relevance. However, no secure evidence has been provided that the fair value approach is superior in economic reality. While the argument of increased efficiency might hold true theoretically, the fair value approach introduces arbitrary judgments due to complex and subjective assessments. These arbitrary judgments give rise to serious concerns about the reliability of financial information prepared on these principles-based standards (Heidhues & Patel, 2012b). For example, IAS 11 on construction contracts and IAS 39 on financial instruments allow the recognition of unrealized profits.

There is general consensus that one key problem in the application of IFRS is the use of fair value as the primary basis of asset/liability measurement (Jermakowicz & Gornik-Tomaszewski, 2006). The IASB advocates its fair value measurement on the grounds of relevance, but this approach is expected to bring increased volatility in the reported values of assets as well as earnings. Major changes to the performance-based executive and employee compensation systems may be required. For example, standards on financial instruments, IAS 32 and IAS 39, were most often cited as very complex to implement in practice. Prior research by Street and Larson (2004) provides support for the conclusions based on the 2002 convergence survey conducted by the six largest international accounting firms, that the complicated nature of particular IFRS (including financial instruments) is a significant barrier to convergence (Street & Larson, 2004). Other research findings also suggest that the application of principles-based standards coupled with the shift toward the inherent subjectivity of fair value measurement, caused significant impairment to the ability to limit managements' opportunism and the accountants' ability to detect it (Jamal & Hun-Tong, 2010).

Given the complexity of the global accounting standards, it is important that a company's accountants possess a high level of expertise in applying these standards to enable company managements to fulfill their responsibility as the ultimate preparer of the financial reporting. The auditors, in turn, are responsible for auditing and providing opinions on the financial statements prepared by the company. However, as previously mentioned, prior research has provided evidence of the consensus view that the lack of adequate education, training, and knowledge of IFRS are important challenges to convergence (Street & Larson, 2004). A training program for accounting staff in companies is needed to let them adopt an entirely different system of business operations, performance measurement, and communication with the market. This training will be an ongoing exercise since IFRS are a moving target. Interestingly, audit firms play the crucial role in this training program (Jermakowicz & Gornik-Tomaszewski, 2006). The involvement of auditors is so significant that they run the risk of becoming heavily involved in preparing the financial statements they are required to audit. This is mainly caused by the complexities of IFRS where many entities, especially smaller listed entities, lack sufficient expertise (Hoogendoorn, 2006).

Besides accounting standards, the accounting profession along with the ethical guidelines that guide accountants' activities play an important role in the improvement of the transparency and quality of financial information in a country (Mir & Rahaman, 2005). Importantly, accounting and auditing functions performed by professional accountants cannot be separated from the concept of professionalism, objectivity and independence of professional accountants. Indeed, the concept of auditor independence is integral to professional codes of ethics and standards which guide auditors in practice (Mautz & Sharaf, 1961). Auditors must maintain independence, defined by Mautz and Sharaf (1961, p. 206) as a "lack of bias in forming delicate judgments." Auditor independence should therefore be characterized by integrity and an objective approach to professional work, described by Mautz and Sharaf (1961) as "a state of mind." These are important topics evidenced by a large number of prior research works that focused their examination on various issues related to accountants' professionalism, objectivity, and independency (Al-Ajmi & Saudagaran, 2011; Anderson-Gough et al., 2000; Askary, 2006; Hudaib &

Haniffa, 2009; Kanagaretnam et al., 2010; Kosmala & Sucher, 2006; MacLullich & Sucher, 2005; Patel et al., 2002; Patel & Psaros, 2000; Roberts, 2010; Sucher & Bychkova, 2001; Sucher & Kosmala-MacLullich, 2004; Suddaby et al., 2009; Windsor & Warming-Rasmussen, 2009).

Prior research has also examined accounting firm characteristics and their associations with audit quality with inconclusive findings. A number of previous studies have shown that the Big Four accounting firms performed a better quality audit than non-Big Four firms. This is based on the assumption that Big Four and non-Big Four firms face different loss functions for "audit failures" and is consistent with a variety of empirical evidence from studies of audit fees, auditor changes, and the stock price reaction to audited earnings (Jenkins & Velury, 2011). Therefore, until recently, a large number of studies have differentiated Big Four and non-Big Four firms to examine the audit quality and have supported that the quality of Big Four audits is relatively high (Becker et al., 1998; Francis & Krishnan, 1999; Krishnan & Schauer, 2000; Palmrose, 1988). However, there is an absent of empirical evidence with respect of the underlying production differences between Big Four and non-Big Four firms audits. As such, existing empirical evidence has largely failed to differentiate between the possibility that audits by Big Four firms are merely perceived to be different or actually differ in how they are produced (Jenkins & Velury, 2011). It is also suggested that the quality of audits by Big Four firms increased under a difficult legal and regulatory environment. A study by Francis and Wang (2008) showed that earnings quality of Big Four firms' clients increased in stricter legal and regulatory environments, while the earnings quality of non-Big Four firms' clients was largely unaffected. In contrast, another study by Choi et al. (2008), that examined audit fee of audit clients (as a proxy of auditors' effort) from 15 countries with different legal regimes, showed that the difference in audit fees between Big Four and non-Big Four firms became smaller as legal and regulatory regimes became more difficult.

The dichotomy of the Big Four and non-Big Four firms (big firms/small firms) in accounting research then has developed to examine differences within-Big Four firms with inconclusive findings (Francis, 2011). Earlier studies such as Craswell et al. (1995) supported the suggestion that the variation in industry expertise was the main source of differences among big Four firms by focusing on the Big Four firms' clienteles to measure the degree of firm's industry expertise. This is based on the rationale that firms with more clients in a given industry will develop deeper expertise in that industry. More recent studies have examined the question of whether industry expertise is firm-wide or office-specific (Ferguson et al., 2003; Francis et al., 2005). The results suggest that industry expertise has both firm-level and office-specific dimensions and has effect on audit quality (Reichelt & Wang, 2010). However, a study by Francis and Yu (2009) shows that, instead of industry expertise, it is the size of the Big Four practice office that serves as fundamental driver of audit quality. Larger offices have greater in-house expertise and therefore greater capacity to deliver higher quality audits (Francis and Yu, 2009).

2.6.4.1.1. Interview findings and discussion on complexity of the global accounting standards

Despite the support for the application of global accounting standards in Indonesia, findings of this paper show that most interviewees have raised concerns regarding the quality and usefulness of information provided by IFRS-based financial statements. Specifically, most interviewees provide clear evidence that usefulness of information and comparability of financial statements prepared in accordance with IFRS-based financial accounting standards is perceived to be limited due to the complexity of the IFRS and the volatility of financial figures in the statements due to their extensive reliance on accountants' professional judgments. Thus, although the IASB and IFAC claim to develop "high quality" standards for the benefits of users, the majority of interviewees felt that the benefits of joining convergence were not thought to be worth the cost of their application. This paper's results show that most interviewees agreed that the application of principles-based standards because of convergence, in contrast to rules-based standards, created unnecessary complication in accounting and financial reporting. As explained by one interviewee:

> *The new standards are more complicated, just from the presentation aspect there are accounts that have to be presented more detailed, such as with classifications that are not required before. The current controversy is regarding PSAK 10 (IAS 21) on functional currency. The old standards did provide criteria to determine functional currency such as sales, expenses, etcetera […] but the tone was tend to be "This is functional currency, but the presentation may be denominated not using the functional currency." Before, companies prefer to avoid inconvenience and choose consistency by using IDR though it is not their functional currency. Now, the new standard requires financial statement amount are denominated in functional currency. The consequence is a large number of companies have to do a remeasurement based on the historical data and apply it retrospectively; thus restate the amounts to a few years back […] It is very difficult in audit aspect, currency rate etc. Now companies have no excuse but to use their functional currency thus their system also need to be changed. The audit takes time and, from*

year to year, you need to validate the amounts, decide the impact, and restate the amounts… (Interviewee 18, a senior auditor in a Big Four accounting firm).

The results of this paper also provide evidence of an example of complexity in the global standards that is related to unique contextual factors in Indonesia that influence business and accounting. In particular, under the Indonesian Land Law, companies cannot hold a Right of Ownership of land in Indonesia but they can hold land titles such as the Right to Cultivate (*Hak Guna Usaha/HGU*), the Right to Build (*Hak Guna Bangunan/HGB*) and the Right to Use (*Hak Pakai/HP*) (Republic of Indonesia, 2007a). The new Investment Law No. 25 of 2007 recognizes these land titles (Republic of Indonesia, 2007a). This is highly relevant for the operation of certain types of companies such as plantation and mining companies in Indonesia. The rule lays down that, for example, the Right to Cultivate is permitted for a period of 95 years and can be granted and extended in advance for a period of 60 years and after that can be renewed for a period of 35 years. Companies and investors wishing to establish businesses in agriculture and plantation, cattle farming and fisheries or aquaculture are affected by this right. This unique aspect of Indonesia introduces another complexity in the adoption of global accounting standards for such companies. Mostly, these complexities lead to increased costs for the companies, such as for changing their accounting system, bearing the impairment in their financial position and results of operations, and also the increased audit fees to be paid to auditing firms due to the extra efforts needed to conduct audits for companies applying these global accounting standards, as indicated by the previous quotations. An explanation provided by one interviewee highlights this issue:

In Indonesia, companies cannot own land because land belong to the government. Rather, company owns a land right with an expiry date after 20-25 years period. But this land right can be extended again and again. It is most unlikely for companies to stop their operation when the land right expired; thus, there is an intention of the company to continuously own the land right. The previous practice is to amortize the land right amount during its useful life […]Recently, there is a new interpretation issued, ISAK No. 25 (Interpretasi Standar Akuntansi Keuangan—Interpretation of Financial Accounting Standards, comparable to the Interpretation from IASB's International Financial Reporting Interpretations Committee (IFRIC)). This is related to accounting for land, some may refer to standard No. 16 (IAS 16 on Property, Plant and Equipment). It requires the land right to be capitalized to the land and does not allow amortization anymore. [It states that] only the subsequent costs to extend the land right that can be amortized, which is much smaller than the cost to first acquire the land right. My director was very upset with the new ISAK because he thinks amortization is the most suitable approach for the acquisition cost of the land right…. (Interviewee 19, a professional accountant, a former senior auditor in a Big Four accounting firm).

Importantly, the complexity in applying these standards leads to the rising cost of financial reporting. Recently, Kim et al. (2012) investigated the impact of IFRS on audit fees using audit fee data from EU countries that mandated IFRS adoption in 2005. The theoretical analysis suggests that IFRS adoption has two opposite effects on audit fees. On the one hand, the increase in audit task complexity arising from IFRS adoption increases audit fees, but on the other hand, the improvement in financial reporting quality leads to a decrease in audit fees. The study's findings show that mandatory IFRS adoption leads to an increase in audit fees, which suggests that the increase in audit task complexity is the driving force behind the IFRS-related audit fee increase. Further, the study finds that the IFRS-related audit fee premium increases with the extent of accounting differences between a country's former local GAAP and IFRS, and decreases with improvements in financial reporting quality brought about by IFRS adoption. Moreover, the findings also show some evidence that the IFRS-related audit fee premium decreases with the strength of a country's legal regime (Kim et al., 2012, p. 2088).

Consistently, this paper show that the convergence process in Indonesia leads to an increase in audit fees, due to the increase in audit task complexity. Moreover, many interviewees believe that the increasing cost of financial reporting is not followed by additional benefits to justify the rising cost, such as improvement in financial reporting quality. Thus, in general, this paper's results demonstrate negative attitudes in relation to the usefulness of the increased disclosures in financial statements that are required by the internationally accepted accounting standards and guidelines. As explained by one interviewee:

> *I disagree [with the adoption of IFRS], not disagree, it may have benefits, but how about the costs? Do you know that it cost Semen Padang—Semen Tonasa [one of the biggest cement producers in Indonesia] IDR4.5 billion [USD4.5million] to change everything? But then what are the benefits? When I ask one of the management that was presenting in the seminar about the IFRS adoption, he said 'We are listed company, so our financial statements have to comply with the standards. Those IDR4.5 billion is not a problem.' For fixed asset, an excavator, the company classified the spare parts into five levels based on their economic life [...] What kind of work is that? They said, when one spare part need replacement, this will make the recording easier. Doing that for one excavator with the value of only hundreds million [equivalent to hundreds thousand dollars], then what are the benefits? [...] User will only care for the profit or loss of the company.... (Interviewee 12, a senior lecturer, a business consultant, and a former senior auditor in a non-Big Four accounting firm).*

This was reinforced by another interviewee:

> *There is an increase in audit fee due to the application of new standards because of convergence. The new component is measurement fee, besides the general audit fee. Although there is always an increase in audit fee every year.... (Interviewee 22, a senior auditor in a Big Four accounting firm).*

2.6.4.1.2. Interview findings and discussion on preference for legalistic approach

The interview findings provide support for the suggestion that the emphasis on paternalism and centralism in various organizations in Indonesia has implications that professional accountants have preferences for the legalistic approach instead of the autonomy of exercising professional judgments. Moreover, the strong influence on Indonesian accounting of US GAAP, which is widely acknowledged as largely adopting a rules-based approach, further supports the view that the dominant values and influences in Indonesia are in contrast to values underlying the global accounting standards, namely, the promotion of a principles-based approach with extensive use of accountants' professional judgments (Abdoelkadir, 1982; Saudagaran & Diga, 2000; Siddik & Jensen, 1980). Results of this paper provide evidence that the usefulness of information and comparability of financial statements prepared in accordance with IFRS-based standards is perceived to be limited due to the strong reliance on accountants' professional judgments in applying global accounting standards. Indeed, most interviewees showed concerns on the extensive use of professional judgments, as properly explained by one interviewee:

> *So far I see that auditors still tend to be conservative. They still try to relate uncertainty expressions in principle-based standards to our previous financial accounting standards [based on the US rules-based standards]. This is because they are not confidence in exercising their professional judgments.... (Interviewee 5, a senior auditor in a Big Four accounting firm).*

This issue was further supported by another interviewee:

> *[IFRS] have no numerical threshold. That is why we hope Bapepam-LK [Indonesian Capital Market and Financial Institutions Supervisory Board] will issue its own guidance [for the application of these standards]. For standards such as insurance contract, the standards are designed to be less precise, but then we wait for Bapepam-LK to issue its rules [with a more precise quantitative measures].... (Interviewee 3, a manager auditor in a Big Four accounting firm).*

The previous quotes also provide clear evidence that most interviewees showed concerns about the promotion of professional judgments by convergence. Moreover, the majority of interviewees show concerns that convergence allows opportunities to use subjective and discretionary judgments in choosing accounting policies for financial reporting. Indeed, the increased opportunity to influence accounting figures was the main topic of most interviews. These concerns are reinforced by the interviewees' belief in the widespread practice of compromise in Indonesia. As aptly explained by one interviewee:

> *They [the new standards] allow more opportunities for negotiation [...] I even think that the adoption is for facilitating negotiation. The financial information after convergence is the same as before. The analogy is like a knife. When a cook has it we get delicious food. However, when a robber has it.... (Interviewee 15, a professional accountant, a former senior auditor in a non-Big Four accounting firm).*

2.6.4.1.3. Interview findings and discussion on fair value measurement

This majority of interviewees criticized that the strong volatilities in the recognition and evaluation of items due to the application of fair value measurement harm the decision usefulness of IFRS. The interviewees showed further concerns with regards to the extensive use of accountants' professional judgments in interpreting and applying the global standards. Indeed, most interviewees were highly critical of fair value accounting because of market nonexistence. This was aptly explained by one interviewee:

> *[Clients complained that] they workload is increased. They tend to ask auditors to do things, such as the calculation for standards No. 50 [on Financial Instruments: Presentation based on IAS 32] and No. 55 [on Financial Instruments: Recognition and Measurement based on IAS 39]. Although there companies with competence accounting staff and they are willing to understand the new standards, in general most clients rely on auditors. Most of them view this as additional burden, then think "just leave it to the auditors".... (Interviewee 24, a senior auditor in a Big Four accounting firm).*

This was reinforced by another interviewee:

> *I was confused to classify a transaction into finance or operating lease since the criteria states the main point is the transfer of risks and benefits to another party. But what are the exact criteria? I think this allows manipulation. Moreover, standards No. 50 and 55 (based on IAS 32 on Financial Instruments: Presentation and IAS 39 on Financial Instruments: Recognition and Measurement) [...] The main purpose is to make users believe in financial statements, isn't it? But this, instead, make them lose their reliability [...] At the end, we can do what we want. It is up to us, as long as we can show the source of our judgments. For example, standard No. 55 [...] It is not clear how to measure it, the market does not exist. I finally thought, good thing they all current [...] So just try to make them all current, so we can avoid the confusion. The auditors were confused, let alone the clients, they were lost.... (Interviewee 19, a professional accountant, a former senior auditor in a Big Four accounting firm).*

In particular, the accountants' discretionary decisions in estimating fair values were considered to be highly subjective and were utilized to avoid the complexity in financial reporting. The influence of corporate aims and managers' personal objectives was identified as a critical factor in the exercise of professional judgment and comparability. This may include simple cost concerns that result in a tendency to exercise judgments in a manner that is consistent with IFRS to reduce time and cost in preparing numerous financial statements. More importantly, however, this paper's results provide a strong indication regarding the influence of personal objectives such as attainment of personal gains and entities' concerns about equity structure and credit rating as influential factors in estimating fair values. This is evident in an explanation by one interviewee:

> *Fair value is not really a problem. For example, fixed assets. Fair value becomes an issue if you choose revaluation model. A company can choose impairment model and stated that there is no indication of impairment. Fair value issues mostly related to financial institutions, in other companies it is not an issue…. (Interviewee 4, a manager auditor in a Big Four accounting firm).*

This was supported by another interviewee:

> *If entities are not financial institutions, loans are restructured to become loans with current maturity dates. So, a new agreement is created stating that the loans can be due any time. Then there is no need to use fair value. The amount reported in the report is the fair value amount […] Unless you want to recognize long-term loans, then you have to measure the present value of the loans […] Make it flexible, the important thing is not breaching the standards…. (Interviewee 3, a manager auditor in a Big Four accounting firm).*

Consistent with the earlier two quotations about the confusion in applying of fair value measurement, the perceived usefulness of IFRS influences attitudes to accounting practices. Moreover, the last two quotations, explaining ways to avoid applying fair value measurement, show that compromise is used to resolve many issues related to the application of global accounting standards. This paper's results show that the focus in making accounting choices is not on recognizing the "substance" of transactions. Indeed, in relation to fair value measurement, accountants' discretionary judgments in estimating fair values were considered highly subjective and allowed opportunities to influence accounting treatments used in financial reporting. Thus, judgments are used not to choose accounting treatments that would reflect the substance of transactions but to avoid what accountants and auditors view as inconveniences and complexities in financial reporting. This is aptly explained by one interviewee:

> *Convergence will change the outside appearance, but not the substance […] It is the mentality that is the main issue, the tendency to negotiate, compromise, both*

auditors and clients…. (Interviewee 15, a professional accountant, a former senior auditor in a non-Big Four accounting firm).

2.6.4.1.4. Interview findings and discussion on knowledge shortfall of accountants

This paper's results also show that most interviewees have increased concerns regarding the knowledge shortfall of accountants working in companies compared to auditors working in accounting firms in Indonesia. This is an important issue because the use of principles-based standards requires extensive use of professional judgments by accountants in preparing financial statements and auditors in auditing them. Thus, professional accountants and auditors are required to have extensive knowledge of accounting principles and standards and also expertise to exercise professional judgments in applying the standards. However, the accounting body's Continuing Professional Education program (CPE) is focused on auditors and not accountants in general (World Bank 2005, p. 12). While the accounting body obliges auditors to attend a minimum of 120 credit hours of continuing professional education (CPE) every 3 years and not less than 30 credit hours annually, the education of accountants in companies as the preparers of financial statements has not kept pace with the demands of the changing business environment. Although there are approximately 40,000 accountants in Indonesia, there is no program to ensure that they are provided with the opportunity to obtain continuing education in order to keep pace with the many changes in the business environment (World Bank 2005, 12). The results of this paper indicate that most interviewees show concerns regarding the imbalance in knowledge and expertise between professional auditors and companies' accountants responsible for preparing financial statements. This was aptly explained by one interviewee:

> *Companies' knowledge on local Financial Accounting Standards is not strong, let alone on IFRS […] some companies have better understanding because the directors were used to work as partners in accounting firms, and just recently left the [auditing] profession…. (Interviewee 4, a manager auditor in a Big Four accounting firm).*

This was supported by another interviewee:

> *Many big companies, especially SOEs, rely on the judgments of auditors. They often ask for advice from auditors, although financial statement should be the responsibility of the company [the management]. In companies, starting from the financial director, the vice president, the controller and internal auditor, there is a wide variability in understanding financial reporting…. (Interviewee 11, an associate professor in a metropolitan university and a consultant).*

2.6.4.1.5. Interview findings and discussion on increasing workload of auditors

Concerns have been raised that the use of principles-based standards and the substance over form approach are more likely to increase the burden of preparers, particularly auditors. Moreover, without the existence of more precise bright-line rules, auditors will be compelled to interpret the intent of principles-based standards. Thus, auditors will be put in a problematic position since clients usually require more aggressive accounting choices that violate the intent but not the letter of the standards (Duska et al., 2011, p. 214). This paper's findings in the previous subsections show evidence that support the same phenomenon in Indonesia. Importantly, the majority of interviewees in this study showed concerns about an imbalance in knowledge and expertise between professional auditors and companies' accountants which resulted in a tendency for company accountants to rely on the auditors in deciding accounting treatments. This puts a higher burden and responsibility in auditors in ensuring quality of information in financial statements. Thus, the quality of information in financial statements lies heavily on the auditor's ability to "pressure" their client to comply with the standards. This was aptly described by one interviewee:

> *It depends on the auditor, if the auditor says A, clients just follow their auditor. Except when the auditor proposed adjustment that "put them in disadvantage" then they look for third opinions from us. Usually our review results in the same proposition as the auditor's or in a different third alternative. The management usually has information that is relatively outdated…. (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).*

This issue was reinforced by another interviewee:

> *An auditor from big accounting firm said, especially in regulated industries, if there is a change in standards that require changes in certain records, in data to be collected as the support for accounting records […] the client can be pressured by the auditor to change their system to support the requirement the standards […] But not all auditors have bargaining power to their client…. (Interviewee 9, an associate professor in a large metropolitan university and a member of Financial Accounting Standards Board).*

The results of this paper also demonstrate that most interviewees believed that their clients shift most of their workload and responsibility for financial reporting on to their auditors. Indeed, most auditors perceived that it is the auditors who bear most of the increasing burden and responsibility to ensure the quality of financial information. Importantly, there is an indication that the auditors perceived a sense of unfairness that led to hopeless acceptance and also frustration. This also shows further support for a negative attitude about the usefulness of convergence and its effectiveness in improving transparency, accounting practice, and accountability in Indonesia. This was aptly described by one interviewee:

> *I remember during the early convergence, most of client cannot prepare the financial statements, so we ended up preparing the financial statements for them. It was not the case for clients who understand the standards and has neat worksheet. But if it is messy, auditor will think "it is better that I just do it or it is never going to be done." Even the client would say "Since you will end up reviewing them anyway, why don't you just prepare them since the beginning?" In the early years, we usually work together with the client staff to teach them how to prepare the statements.... (Interviewee 21, a professional accountant, a former senior auditor in a Big Four accounting firm).*

This issue was reinforced by another interviewee:

> *From the practice side, there is a gap between Big Four and non- Big Four firms. For example, in a big 4 firm where I used to work, it is all systemized, task allocation etcetera. But it is not the case in non-Big Four firms, maybe because of the resource limitation [...] These new standards increase the workload of the more senior level auditors since we now have to complete those tasks that were used to be able to be delegated to the junior staff, like form filling etc. It is said that the new ISA standards require auditors with experience, with "long hours." Since the audit approach is based on risk, risk assessment stage takes a lot of time [...] but if I can be honest, companies' practice is not improving. So, at the end this is just more work for auditors. The stricter we perform the audit, the more findings we find, but then there are pressures such as deadline, pressures from partner and from client. At the end, we become more frustrated. It is usually the same clients who make the same mistakes every year [...] The good side is, we get more findings, because we put more emphasize on control. But usually the client thinks, "Whatever, I am the one who pay [...] So, it is the auditor job to "fix" this. A friend in Singapore told me that this was not the case in there, individuals there are more aware on accountability.... (Interviewee 16, a manager in a non-Big Four accounting firm, a former senior auditor in a Big Four Firm).*

2.6.4.1.6. Interview findings and discussion on concepts of professionalism, objectivity, and independence in accounting

This paper's results show that the dominant values in Indonesia and also conflict of interest and power dependence provide deeper insights into the interpretation and application of professionalism, objectivity, and independence concepts in Indonesia. Most interviewees showed concerns for the difficulty of maintaining professionalism, objectivity and independence as indicated in their original Anglo-American conceptualizations. Indeed, the importance of relationship (*relasi*) in a professional context is largely defined by favors and compromise. Most interviewees reveal that personal and informal relationships in business still appear very important. Importantly, the majority of interviewees showed concerns that these concepts were often given lower priority than the achievement of the personal interests of the actors involved. This was clearly indicated by an explanation from one interviewee:

> *I went to Australia for 18 months. There, in audit, the client is in the equal position with the auditor, the client also has a good understanding in accounting, some even have auditing background, thus we do our job and they do their job [...] Here, we tend to do more work helping the clients, clients also expect a kind of consulting service, advise [...] It's awkward. Sometimes we don't really know the substance of the transaction while they actually have better understanding about that. We are only focus on accounting aspect, while they understand the legal aspect and business rational to explain why a transaction has to be restructured certain way.... (Interviewee 2, a partner of a Big Four accounting firm and a former member of Public Accountants Professional Standards Board).*

Another explanation provided support for this issue:

> *Auditors should not be influenced by others, the main point is that. [However,] in Indonesia we develop relation with clients. So, it looks like we defend the clients, looking for alternative treatments, saying to the partner [in accounting firms] that we [are still] looking for the data because what the partner want is that we have all [the documents], especially if the fee is significant. Thus, it is better to make things easier. It says that if it is not a listed company than it is ok, make it easier for the auditor and the client. [...] It depends on whether the fee is substantial or not and a consideration whether it [the company] still be our client next year. But for sure auditor will consider the risk. Is it really material or not? At least my partner will ask whether it is material or not. Is there other procedures? [...] The main idea is trying to find a loophole.... (Interviewee 3, a manager auditor in a Big Four accounting firm).*

2.6.4.1.7. Interview findings and discussion on differences between Big Four and non-Big Four firms

This paper's results show that most interviewees showed that there are differences in audit quality between the Big Four and non-Big Four firms in Indonesia. The interviewees further mentioned that differences in audit quality are also evident between second-tier international accounting firms and small local firms in Indonesia. Importantly, many interviewees revealed that there are differences in audit quality even between the Big Four firms. The interviewees explained that there are reputation attach to the Big Four firms about which one is "stricter" in its audits than the others. A number of interviewees even disclosed that this reputation is being used by certain companies for "audit shopping," that is, to choose their auditors to match their preference regarding the "strictness" of the audit process. This clearly shows that conflict of interest and power dependence play an important role in the quality of audit practice in Indonesia. This is aptly explained by one interviewee:

> *Sometime the focus of audit of local accounting firm is only legal listing, verifying the amount listed in trial balance with the amount listed in statements. Then, that's it. They did not scan the amounts and did not gain understanding of the business nature. Maybe it is because they do not have a good methodology, maybe it is limitation in procedures or resources […] Sometimes, even, one firm can "outsource" another firm to help them do the audit, "borrowing the flag" of another firm. Firm A sign the report but it is actually firm B who conduct the audit. They only care for the income…. (Interviewee 20, a professional accountant, a former auditor in a non-Big Four and a Big Four accounting firm).*

This was reinforced by another interviewee:

> *I think my previous Big Four firm has certain reputation that made them rarely won tender to audit SOEs. Firm X (another Big Four firm) is well-known for allowing negotiation, everybody knows that…. (Interviewee 22, a professional accountant, a former senior auditor in a Big Four accounting firm).*

The next subsection focuses on accounting environment in Indonesia. The subsection presents the background information on standards-setting in Indonesia and then discusses interview findings with respect to politics in standards setting process, enforcement mechanisms and translation of global accounting standards.

2.6.5. Accounting Environment: Politics in Standards Setting Process, Enforcement Mechanisms, Translation of Global Accounting Standards

2.6.5.1. Background information

The Indonesian government provides legal backing for the adoption of the Statement of Financial Accounting Standards (SFAS, *Pernyataan Standar Akuntansi Keuangan*—PSAK) by companies by means of issuing Law No. 40 of 2007 on Limited Liability Companies which replaced Law No. 1 of 1995 (Republic of Indonesia, 2007b). The Statement of Financial Accounting Standards was developed by the Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan*—DSAK) of the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia*—IAI). Specifically, for listed companies, the Capital Market Law (CML) requires companies, which have at least 300 shareholders and paid-in capital of at least IDR3 billion, to file updated financial statements to the Capital Market and Financial Institutions Supervisory Board (*Badan*

Pengawas Pasar Modal dan Lembaga Keuangan—Bapepam-LK). The CML requires financial statements submitted to Bapepam-LK to be prepared in accordance with GAAP. In the CML, the GAAP refer to the SFAS set by the Indonesian Institute of Accountants. The CML also empowers Bapepam-LK to establish accounting regulations with respect to capital markets when necessary (World Bank, 2005, p. 8). SFAS and other regulations, such as the Bapepam-LK regulations, governing financial reporting in Indonesia are referred to as the financial accounting standard (*Standar Akuntansi Keuangan*—SAK).

Indonesia's Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan—DSAK*) claims to follow an open process in setting accounting standards. In the "due process," user participation is encouraged through public hearings and opportunities to provide comments. The process of standards-setting is said to be transparent, by covering identification of national standards issues, consultation with a consultative board, setting up task forces, discussing exposure drafts in board meetings, issuing exposure drafts to constituents, holding public hearings, and final checking and legalizing of standards. The Financial Accounting Standards Board submits its reports to the National Council of Indonesian Institute of Accountants and is directed by the Consultative Financial Accounting Standards Board. It is indicated that the Board regularly attends both annual standard-setter meetings hosted by the IASB and regional standards-setter meetings (World Bank 2005, p.13).

The Generally Accepted Auditing Standards (GAAS, *Standar Pemeriksaaan Akuntan Publik*—SPAP) and the Code of Ethics for Professional Accountants in Indonesia are developed by the Indonesian Institute of Certified Public Accountants (*Institut Akuntan Publik Indonesia*—IAPI) since 2007. The Indonesian Institute of Certified Public Accountants is supported by fulltime staff. In setting standards, the Indonesian Institute of Certified Public Accountants follows a formalized consultative process to identify, develop and revise Indonesian Generally Accepted Auditing Standards. This process involves constituents, particularly in seeking comments on exposure drafts and in public hearings.

It is important to note that, in contrast with the notion that the standard-setting process is largely dominated by its technical nature and is thus value-free (Young, 2010), empirical evidence has shown that this paper supports the view that the accounting standards-setting process is a political process and as such offers potential participants several opportunities and means by which they can influence its outcomes (Sutton, 1984). Prior research has provided empirical evidence on the importance of non-observable forms of lobbying used by corporate managers to influence accounting standard-setting bodies in countries such as the US and UK (Georgiou, 2004; Sikka, 2001; Sutton, 1984; Young & Williams, 2010). Moreover, researchers show that standard-setting arrangements are a reflection of the conflict of interest and power dependence in society, designed to defend and perpetuate the interests of a few dominant groups, such as large multinational companies and Big Four accounting firms (Cooper et al., 1998; Jang, 2005; Sikka, 2001; Suddaby et al., 2007).

Prior research has also shown that incentives to produce quality financial statements are poor in the absence of effective enforcement mechanisms. The extent to which standards are enforced is as important as the standards themselves (La Porta et al., 1997; Sunder, 1997, p. 167). Hope (2003) categorizes enforcement mechanisms as consisting of the rule of law, shareholder protection, prohibition of insider trading, judicial efficiency and audit spending. In Indonesia, the enforcement mechanisms of financial disclosure rules, particularly punitive measures, are largely the responsibility of governmental agencies. However, weakness in enforcement mechanisms remains an issue in Indonesia. One important example in relation to professional accountants' service is the World Bank's criticisms that there is no mechanism to proactively ensure that practicing accountants and auditors comply with the requirements of the Code (World Bank, 2010b). As a response to show its commitment to improving transparency and quality of financial information in the country, the Indonesian government issued a Ministry of Finance Decree No. 359/KMK.06/2003 on Public Accountant's Service as an amendment of Decree No. 423/KMK.06/2002 (Ministry of Finance, 2003). Importantly, the government issued the Public Accountant Law on April 2011 (Republic of Indonesia, 2011). One of its important rules is to allow the prosecution of auditors who breach the Public Accountants Professional Standards (*Standar Professional Akuntan Publik*—SPAP, a combination of auditing standards and the Code) in performing audits (Republic of Indonesia, 2011).

Prior literature has also showed, in respect to the global convergence, translation of the global accounting standards into various national languages is a major challenge in their adoption and application (UNCTAD, 2005; Hellmann et al, 2010). IFRS are officially developed and published in English. Many member nations require considerable amounts of time and other resources to translate IFRS pronouncements into their national languages. This process poses a significant challenge, particularly in countries where capacity for such highly technical translation is low. Variations in translation could bring inconsistency into the implementation of IFRS (UNCTAD, 2005). Prior research on convergence in Germany shows that the translation of IFRS from English into German included some mistakes and inaccuracies because of the difficulties in literally translating some accounting concepts and terms (Hellmann 2010, p. 112).

2.6.5.2. Interview findings and discussion on politics in standards setting process

The results of this paper also show that a number of interviewees expressed their concerns about politicking in the standards-setting process in contrast to a fair process that pursued the "public interest" in Indonesia. Moreover, the results show that many interviewees do not perceive the accounting standards board members as independent, but rather that they are largely following Anglo-American accounting tradition and promoting the interests of Indonesian government elites, large corporations and big accounting firms. This was aptly explained by one interviewee:

> *The objective of the adoption to create more demand for consultant services, actuarial service and accounting services…. (Interviewee 15, a professional accountant, a former senior auditor in a non-Big Four accounting firm).*

This issue was supported by another interviewee:

> *Most big accounting firms have headquarters in the West so that easy for them to request expert help from those countries. These countries have already applied IFRS earlier, so that accounting firms in emerging economies with affiliation with these big accounting firms can request assistance in term of IFRS application, such as asking for experts in IFRS to be sent for a week to address issues faced by auditors in big accounting firms in Indonesia. It is impossible for small accounting firms to ask for the same kind of assistance because they have no such affiliation. Thus, it is more feasible for big accounting firms to applied IFRS because they were developed in those firms' original countries […] Small and medium accounting firms are not demanding, they are tend to accede to others' demands, like being required to attend big FAS training while not even one single client of theirs is listed company. What is the benefit of the training for them? […] As a member of Supervisory Board, I reasoned to the Indonesian Institute of Certified Public Accountants [IAPI] that it is not a proper decision to make the training mandatory for them, based on the religious value, it is dholim [injustice; jeopardize others] to required small and medium accounting firms to attend the IFRS training. They only use Sharia FAS and ETAB to audit their clients…. (Interviewee 1, a partner of non-Big Four accounting firm and a former member of the Financial Accounting and Public Accountants Professional Standards Board).*

Lobbying in the application of the accounting standards to promote the interests of dominant actors in Indonesia is also indicated by a number of interviewees. The results of this paper reveal that this practice is easily evident during the formulation process of the industry-based Financial Accounting Standards in the pre-convergence era. Importantly, the results show that lobbying efforts are evident even after the convergence. As aptly explained by one interviewee:

> *The current Chairman of accounting body is also the head of the Government Internal Audit Agency [Badan Pemeriksa Keuangan Pemerintah—BPKP], but it is not that simple because big accounting firms also have significant power. A friend who is a former member of Financial Accounting Standards Board from academics told me that, in the Indonesian Institute of Accounting, we always lose to "the big businessmen." Thus, the one that always win is the interest of to "the big businessmen." It is true that standard-setting is politicking, here, everywhere. In politic, the one who has power, with money, is the one who always win […] This is obvious with the old standards-setting process, the industry based standards. For example, in preparing financial accounting standards for insurance sector, the biggest insurance company would voluntary sponsored the standards setting process, providing funds with the aim to facilitate their interest to be considered in the standards. Moreover, I witnessed how for developing financial accounting standards for banking sector, the National Banks Association (Perhimpunan Bank-Bank Umum Nasional—PERBANAS) lobbying and providing funds for the standards-setting process, and at the end their interest was accommodated in the standards […] Although IFRS are principles-based standards, interests remain, and the politic is applied in present time, maybe not as obvious as in the old standards-setting process…. (Interviewee 10, an associate professor in a metropolitan university and a consultant).*

The above quote is consistent with the earlier discussion that the contextual factors of Indonesia leads to strong influence of the state in accounting and regulation in Indonesia. In relation to the independence of accounting profession in Indonesia, Hutagaol et al., (2000) provided evidence regarding the excessive government influence in accounting development and standard setting in Indonesia. This influence was realised through the relationship between Development and Financial Supervisory Agency (*Badan Pengawas Keuangan Negara*—BPKP) and the Indonesian Institute of Accountants and large accounting firms in Indonesia. This paper's findings are in contrast to Askary's (2006) study which relied on Gray's (1988) model and Hofstede's (1980) cultural study in examining the influence of culture on accounting professionalism in twelve emerging countries in Middle east and South East Asia from 1996 to 2000. The study concluded that accounting and auditing professional bodies in Indonesia, along with Malaysia, were independent from their governmental agencies and not influenced by governmental agencies' regulations.

The concerns about standards-setting as a political process that can be used by various actors to manipulate the implementation and application of the global accounting standards were supported by another interviewee:

> *Recently, there is lobbying effort form the insurance companies to postpone the application of fair value measurement for insurance companies.... (Interviewee 17, a senior auditor in a Big Four accounting firm)*

The lobbying efforts of insurance companies through the Association of Insurance Companies prove that politics are inseparable from the application of accounting standards and guidelines. Specifically, at the end of 2012, the insurance companies lodged a written letter with the Financial Accounting Standards Board stating their complaint about the application of financial accounting standard No. 62 on Insurance Contracts, along with standard No. 28 on Loss Insurance and standard No. 36 on Life Insurance that all related to IFRS 4 on Insurance Contracts, that had gone through due process before its issuance. The companies' main reason was lack of readiness and the non-existence of supporting guidance such as technical guidance from the Indonesian Institute of Accountants and Capital Market Supervisory Board. The Association of Insurance Companies even explicitly argued that convergence and IFRS application would have significant negative economic consequences on the going concerns of the insurance industry as a whole. As a consequence, the companies requested the Capital Market Supervisory Board to postpone the effective date for application of Indonesian financial accounting standards No. 62, 28 and 36 which were actually already in effect since 1st January, 2012 (Kompas, 2012; Wahyuni & Agapitasari, 2013). However, the Capital Market Supervisory Board announced that they refused this request and maintained its requirement for the insurance companies to apply these standards for financial reporting for the year 2013 (Kompas, 2012). In contrast, earlier in 2009, the Bank of Indonesia as the country's Banking Supervisory Agency announced that Banks were allowed to have transition periods from 2009 to 2011for applying financial accounting standard No.55 on Financial Instruments. This decision was based on their review that 14 large banks were ready and 47 banks were capable of applying financial accounting standards No. 55, but that 55 banks were not in any way capable of applying it (Kontan, 2009).

2.6.5.3. Interview findings and discussion on enforcement mechanisms

As discussed earlier, the Javanese emphasis on harmony within hierarchy (*rukun*), conflict avoidance, respect (*hormat*), and relation (*relasi*) is the dominant legal view in Indonesia. In particular, law is mostly viewed as "relative" which means largely defined by important concepts such as relation and status (Lev, 2000, p. 163). In relation to this, this paper's results show that most interviewees were concerned for the effectiveness of accounting-related regulations and laws in Indonesia. The interviewees mostly highlighted that the legal system remains extremely bureaucratic and inefficient so that it usually takes a very long time to be heard in courts. Moreover, concerns were raised by most interviewees regarding the fairness in the application of law, as clearly explained by one interviewee:

> *What we are worried about is "flexible law," The decision that auditor is not complying to the Public Accountants Professional Standards [SPAP] is definitely judgment by itself, and judgment is not law. So, if we do not do something that is based on judgments, that may be different with others, and judgments can be right or wrong. As long as there is no intention to manipulate it, it should not be charged as a criminal offence. If the auditor is punished by the profession, for example by ethical sanctions, it is fine, but for criminal offence. We know how the law procedures in Indonesia are. Although at the end a person is found not guilty, that person would have been suffering "half dead" by the time [he/she gets discharged]. We do not need to be guilty to be suffering, being charged as a suspect, being summoned by the police, being summoned by the prosecutors…. (Interviewee 2, a partner in a Big Four accounting firm and former member of the Public Accountants Professional Standards Board).*

This concern was supported by another interviewee:

> *The law is good but the operational rules to implement it are not available yet. And since our legal system is unclear, when there is a law that allows that extent of punishment, at the end the law is going to be "taken advantage" [of by powerful actors] […] There is a close relationship between Public Accountants Law and convergence, because we applied principles-based standards in which judgments play a dominant role. But then the operational rules for this law are still non-existence. Then again, we are talking about interpretations, judgments are different. This can result in auditors being blamed because of these kinds of judgments. If the legal system is correct, people can judge whether the judgments are sound or not, if not then the auditor is deserved to be punished. However, if the judgments are sound but then because of the problem of manipulation of legal system…. (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).*

Importantly, there is an indication of conflict of interest and power dependence between the accounting profession and the government in the rejection by the Indonesian Institute of Accountants and the Indonesian Institute of Public Accountants of the Draft of the Public Accountant Law before its approval by the Indonesian Parliament in April 2011.

Indeed, it had taken almost a decade for the law to be enacted considering its first proposal was issued in 2002. This law is a response to criticisms regarding the light disciplinary actions taken by the regulatory bodies towards professional accountants. Besides addressing issues such as public accountant licensing, the authority of Ministry of Finance (MoF) to govern the accounting profession, and liberalization regarding the practice of foreign public accountants, this law regulates criminal sanctions for public accountants in relation to violations of financial reporting regulations. In general, the professions claimed that the rules posed a threat to the accounting profession. The profession especially objected to the regulations regarding sanctions, licensing, authority of MoF to govern the profession, and liberalization regarding the practice of foreign public accountants. The profession claimed that the proposed law did not reflect good governance. Moreover, it argued that the principles of transparency, accountability, independence and equality were not reflected in the proposed law (HukumOnline, 2010; Kontan, 2010; Tempo, 2011). Thus, even if the Law was finally approved by the parliament, there would be a possibility that the profession would resist it, for example by complying with its letter but not its spirit due to the conflict of interest and power dependence among actors in Indonesia.

2.6.5.4. Interview findings and discussion on translation of global accounting standards

Findings of this paper provide evidence that Indonesia faces issues with respect to the translation of global accounting standards. Difficulties faced with the translation are the use of lengthy English sentences, inconsistent use of terminology, and the use of the same terminology to describe different concepts and the use of terminology that is very difficult to translate. This issue is indicated by many interviewees, as aptly explained by one interviewee:

> *If you read the Indonesian version of the standards, they are kind of awkward. If you have not read the original [the English version] you will not understand them. It is the accounting body decision to translate the original standards "word by word" instead of the spirit because they are worried translating based on the spirit of the standards when there is possibility we misunderstand the meaning of the original standards [...] It is hard to read them.... (Interviewee 2, a partner in a Big Four accounting firm and former member of the Public Accountants Professional Standards Board).*

This was reinforced by another interviewee:

> *At first I read the local standards in Indonesian language. When there are sentences that were hard to understand, I refer back to the English version [of IAS/IFRS]. I found some mistakes in the translation. They are simple but have significant effect.*

in the English version it stated "and" while in Indonesian translation it is stated "atau" [or]. Then, the English of "liabilities" is translated to Indonesian as "liabilitas" while "obligation" is translated as "kewajiban," but there are "obligations" in the English version that are translated as "liabilitas" in Indonesian standards, instead of "kewajiban." Those are serious. I would say, 80-90 percent readers will have difficulties in reading the translated local standards. Thus, it has effect on the understanding [...] We have to read it over and over again, unless then we refer back to the English version (Interviewee 8, a senior lecturer in a large metropolitan university and a business consultant).

The next section reinforces the findings that convergence is a political process by highlighting how convergence intertwines with organizational players' conflict of interest and power dependence in the context of Indonesia.

2.7. Conflict of Interest and Power Dependence

This paper supports the proposition that the incorporation of conflict of interest and power dependence in Indonesia, both in its external and internal environments, will provide richer insights into the acceptance and development of convergence in Indonesia. Indeed, earlier discussion regarding the forces of globalization clearly indicates that the Indonesian government conceded to the external pressures (*tekanan dari luar*), especially from international agencies promoting Anglo-American interests, by undertaking reforms including convergence with the adoption of global accounting standards. This government uses the rationale that convergence is an attempt at constructing an organization in which the role of accounting and financial reporting would make company managements responsible and accountable for company performance, and thus improving transparency and quality of financial information in Indonesia. While convergence facilitates the improvement of transparency and accountability, the enforcement of these standards is largely influenced by the contextual environments in which those standards are interpreted and practiced.

The previous discussion on Indonesia's internal environment has demonstrated that there are significant differences between contextual settings in Indonesia compared to Anglo-American countries, and that this is likely to cause issues and problems in implementing and applying the global standards. These contradictions are in turn reproduced within intra-organization contexts, shaping relationships and behaviors of the organizational actors. Conflict of interest among organizational actors, including government and regulators, controlling shareholders, company managements and independent auditors, is inherent in Indonesia due to differences in their functions and interests. The interaction of conflict of interest and power dependence has raised issues and challenges associated with implementing and applying global accounting standards.

The findings of this study show that the institutional context acts to configure the power and status of actors within a country or an organization (see Greenwood & Hinings, 1996). Conflict of interest is unavoidable and determined by the differences in roles played by various organizational players. The conflicting interest and power imbalance among organizational actors such government and regulators, controlling shareholders, managements, and independent auditors are deeply rooted in the institutional setting, and reflect the institutional contradiction in Indonesia. The findings show that the interplay between conflict of interest and power relations largely determines the way in which organizational actors interpret and apply the global accounting standards. In the process of enforcing these standards, actors with different interests tend to compete for influence and dominance. Effective change would not be the likely outcome, unless those in positions of privilege and power were in favor of the proposed changes (Greenwood & Hinings, 1996).

The findings of this paper reveal that management, backed by controlling shareholders, are the dominant and most powerful actors in listed companies compared to independent auditors and accountants. Moreover, the dominant business values and practices of "crony capitalism," personal relationship (*relasi*), and connection (*koneksi*) reinforce the power of controlling shareholders and managers due to the close relationship between powerful businessmen and government officials. However, company management largely refuses to accept global accounting standards in the way that was intended because of their incompatibility with dominant Indonesian values and contextual settings. The regulations enforcing global accounting standards threaten management's autonomy and power, so that their implementation is likely to encounter substantial resistance. In particular, the promotion of transparency, increasing disclosure, fair value measurements, the "substance over form" approach and accountants' professional judgments by convergence were perceived as threats since they challenge the prevailing ways of thinking and doing things, and in turn provoked resistance (Burns & Scapens, 2000). Thus, powerful actors such as controlling shareholders and company managements often use their power to protect their interests by intervening in and manipulating the implementation and application of global accounting standards. Correspondingly, the less powerful or the more dependent actors often choose to compromise with the demands of the more powerful ones.

Furthermore, the Javanese *adat* emphasis on harmony within hierarchy (*rukun*) and conflict avoidance supports the use of compromise to resolve conflict between global accounting standards and important interests. Indeed, previous discussion and quotes regarding crony capitalism, concepts of accountants' professionalism, objectivity and independence in accounting and auditing, politics and lobbying in standards-setting and weak enforcement mechanisms provide clear evidence of the pervasiveness of conflict of interest and power dependence in the implementation and the application of global accounting standards, and thus the development of convergence in Indonesia. Importantly, the findings of this paper show that the adoption of global accounting standards in Indonesia leads to formal ("de jure") but not necessarily real ("de facto") convergence.

2.8. Conclusions

The objective of this paper has been to make theoretical and methodological contributions to the literature on the global convergence of financial reporting. From a theoretical perspective, this paper develops a holistic theoretical framework to critically examine the influence of relevant contextual factors on convergence in Indonesia with a special focus on external pressures (*tekanan dari luar*) and domestic tensions incorporating the influence of Islam, the forces of globalization, conflict of interest and power dependence, as well as internal environment.

Data were collected through semi-structured interviews with eight senior accounting academics and sixteen senior professional accountants in Indonesia. The findings of this paper show that the holistic theoretical framework developed and in-depth interview data used in this paper provide a deeper and richer understanding of interrelationships between relevant external and domestic pressures such Islam, the forces of globalization, conflict of interest and power dependence, as well as internal environments and their effects on convergence in Indonesia. Specifically, the results show that external pressures (*tekanan dari luar*) such as the forces of globalization as well as conflict of interest and power dependence were influential in this rush toward global convergence in Indonesia. This is demonstrated in the ability of the World Bank and IMF to influence reform policies of Indonesian government through their aid conditionalities after the Asian financial crisis, 1997-1998, leading to the start of global convergence in Indonesia overlooking rigorous evaluations by stakeholders, resulting in challenges to the future development and acceptance of convergence in Indonesia.

The findings also provide evidence of major issues faced by convergence in Indonesia largely due to the lack of alignment between relevant Indonesian contextual factors and the Anglo-American values underlying convergence. First, there are concerns regarding the usefulness, relevance, and effectiveness of convergence to Indonesia. This is especially related to the importance of SMEs, SOEs, and FOBs in the Indonesian economy which has serious implications for issues such as "crony capitalism," related-party transactions, "harmony within hierarchy," and secrecy of information. Second, Islam poses challenges to global convergence in Indonesia especially due to the use of the *Sharia* Financial Accounting Standards by Islamic banks in Indonesia. IFRS that are dominated by fair value measurement are in contradiction to Islamic *Sharia* that does not recognize the time-value of money and interest (*riba*). Third, "crony capitalism" remains a serious problem in Indonesia. The Javanese *adat* emphasis on harmony within hierarchy (*rukun*) and *gotong royong* (mutual assistance) support this problem. Finally, despite governmental support on convergence, powerful actors in Indonesia who feel threatened by the convergence, such as the increasing transparency required and the promotion of the "substance over form" approach, often use their power to protect their interests by intervening in and manipulating the application of global accounting standards. Correspondingly, the less powerful or the more dependent actors often choose to compromise with the demands of the more powerful ones. Furthermore, the Javanese *adat* emphasis on harmony within hierarchy (*rukun*) and conflict avoidance support the use of compromise to resolve conflict between global accounting standards and important interests leading to formal ("de jure") but not necessarily real ("de facto") convergence.

Moreover, the findings also provide evidence that the major issues faced by convergence in Indonesia are corroborated by professional accountants' greater preference for a legalistic approach, differences in quality of audit services provided by Big Four accounting firms which raise issues of "auditor shopping," lobbying effort relating to the implementation and application of global standards, and the weak enforcement mechanisms in Indonesia. As such, findings of this paper raise concerns about the potential to achieve the objective of global standards-setters namely international comparability of financial reporting within and across countries.

This paper also makes a methodological contribution to the literature by utilizing two approaches in analyzing data, namely, the use of researchers' judgments and the application of qualitative-data-analysis software. The findings of this paper show that the use of researchers' judgments provides additional insights compared to those produced by qualitative-data-analysis software in analyzing interview materials.

This paper made several contributions to international accounting literature and practice. First, this paper contributes to, and extends, previous research by going beyond reliance on narrowly focused approaches such as simplification, categorization, quantification, and measurement, and incorporating the importance of relevant contextual factors, external pressures (*tekanan dari luar*), conflict of interest and power dependence on examining the complex and multidimensional issues surrounding convergence. By so doing, this paper provides deeper and richer insights into accounting and convergence in Indonesia which are central to our understanding of the effects and consequences of the convergence process.

Second, given the importance of conflict of interests and power dependence on convergence, the theoretical framework and the results provided from Indonesian perspectives may also be taken into account by international standards-setters when deciding on potential strategies and changes to enhance the acceptance of the global accounting standards. The framework proposed in this paper should inform international and national standards-setters about potential issues and obstacles, which might be taken into account when introducing the global accounting standards. Given the obstacles associated with convergence in Indonesia, the findings in this paper are of relevance to stakeholders in countries that plan to join the convergence of the global accounting standards.

Finally, the findings contribute to international accounting research by providing evidence for the necessity of integrating broader perspectives and, specifically, the importance of invoking relevant contextual factors, external pressures, conflict of interests and power dependence in international accounting research.

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Chapter 3: Professional Accountants' Preferences for the Application of Principles- versus Rules-Based Standards in Indonesia

Abstract

The increasing importance of global convergence of financial reporting has attracted increasing interest in the influence of social, political and economic factors on accounting. Moreover, the promotion of the "substance over form" approach, principle-based standards, and the extensive use of professional judgments has stimulated heated debates on the Anglo-American biases of the convergence. An implicit assumption underlying convergence is that professional accountants in all countries have a preference for a principles-based approach in interpreting and applying accounting standards. However, there is a lack of empirical evidence to support this assumption. The aim of this paper is, using Indonesia as a case study, to contribute to the literature by critically examining a research question with respect to the influence of relevant contextual factors on professional accountants' preferences for principles-based versus rules-based standards. In particular, this paper suggests that professional accountants in Indonesia are more likely to demonstrate a greater preference for rules-based standards than principles-based ones. This paper also makes a methodological contribution to the literature by using two approaches in its examination, namely, a hypothetico-deductive framework and a qualitative research approach. For the purposes of this paper, responses from 71 professional accountants to a survey questionnaire and 24 experts in an in-depth interview were used for the analysis. Results from the hypothetico-deductive framework show that professional accountants in Indonesia show a significant preference for the rules-based approach only in respect of standard for leases. For the general application of accounting standards as well as for the application of standards for Investment in Associates and Business Combination, the results largely failed to show a significant preference for rules-based standards. In contrast, the results of the qualitative approach provide clear evidence that professional accountants in Indonesia have realized that there is a rush toward global convergence and feel they have no choice but to adopt the principles-based standards in their work. However, when it comes to their current practices, professional accountants still prefer the application of the rules-based approach. The results further show criticisms of the complexity of the standards and arbitrariness of judgments required in the application of principles-based standards which, in turn, highlight questions with respect to the reliability and comparability of financial information under convergence. Thus, this paper's findings provide evidence to reject the simplistic assumption that professional accountants in all countries prefer the principles-based approach in interpreting and applying accounting standards.

Key Words: Indonesia, Islam, principles-based standards, preferences, and contextual factors

3.1. Introduction

The global convergence of financial reporting is perhaps the most important and controversial issue in accounting today. Global convergence indicates the adoption of global accounting standards and guidelines, namely, International Financial Reporting Standards (IFRS), International Standards of Auditing (ISA), the Code of Ethics for Professional Accountants (the Code) and International Education Standards (IESs). IFRS are issued by the International Accounting Standards Board (IASB) whereas ISA, the Code and IESs are issued by the International Federation of Accountants (IFAC) with a common objective of developing "high quality" standards applicable around the world (IASB, 2014; IFAC, 2014). A recent survey reported that 128 countries have required or permitted the use of IFRS for domestic listed companies (Deloitte Touche Tohmatsu Limited, 2013). Moreover, members and associates of IFAC in 130 countries have adopted ISA, the Code, and IES as well as IFRS as required by the IFAC's membership agreement (Deloitte Global Services Limited, 2011; IFAC, 2014). This rush towards the global convergence of financial reporting is driven largely on assumptions and assertions based on enhancing international comparability of accounting information both within and across countries.

Researchers have argued that the global standards and guidelines have Anglo-American biases. These biases are highlighted by the promotion of Anglo-American accounting approaches and practices such as "substance over form" approach, "true and fair view," principles-based standards and extensive use of accountants' professional judgments (Gallhofer & Haslam, 2007; Heidhues & Patel, 2011; Heidhues & Patel, 2012b; Perry & Noelke, 2006). Global standards-setters have claimed that, to achieve global comparability, the principles-based approach is to be adopted in developing accounting standards and guidelines. Principles-based standards rely extensively on the "substance over form" approach that requires extensive use of accountants' professional judgments in examining the nature and context of business transactions rather than a fixation on their legal form (Agoglia et al., 2011; Bennet et al., 2006; IASC, 2000, p. 24; McEnroe & Sullivan, 2013; Schipper, 2003). On the other hand, rules-based standards take a legalistic approach that requires very little exercise of accountants' professional judgments (Bhattacharya et al., 2003; Collins et al., 2012; Humphrey et al., 2009; Nelson, 2003). Indeed, the IASB has claimed that IFRS are "high quality" standards that are developed to "protect public interest" (IASB, 2014) and are superior in presenting a "true and fair view"

(IASB, 2010, BC3.44) that provides “useful information” for various users (IASB, 2010, OB2) especially because the application of the “substance over form” approach (IASB, 2010, BC3.26). However, matters related to “public interest” and “high quality standards” have not been explained by the global standard-setters.

As principles-based standards, the IFRS contain broad principles and “uncertainty expressions” that emphasize a more discretionary style of judgment by professional accountants. Some examples of uncertainty expressions in IFRS are: assumed beyond any reasonable doubt, probable, reasonably certain, sufficiently, remote, insignificant, major part, substantially, significant influence, more likely, less likely, deemed, more likely than not, expected, and control. These uncertainty expression are often used to indicate levels of probability in prescribing the recognition, measurement and disclosure of events and transactions in financial reports (Chand et al., 2011; Chand et al., 2010; Chand & White, 2006; Laswad & Mak, 1999). Prior research has provided evidence of the influence of contextual factors, including culture, on professional accountants’ judgments by demonstrating significant differences in judgments of professional accountants in the use of uncertainty expressions used in IFRS (Agoglia et al., 2011; Chand et al., 2011; Chand et al., 2010; Doupnik, 2008; Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004). This shows that the global convergence, by the adoption of global accounting standards (“de jure” convergence), may not necessarily result in convergence of accounting practices (“de facto” convergence) unless those standards are interpreted and applied in a consistent manner (Chand et al., 2010; Doupnik & Perera, 2012).

An implicit assumption underlying the convergence phenomenon is that professional accountants in all countries have a preference for principles-based standards which require the extensive use of accountants’ professional judgments in interpreting and applying those standards. However, there is a lack of empirical evidence to support this assumption. As such, the aim of this paper is to challenge the global standards-setters’ simplistic assumptions by critically examining a research question with respect to professional accountants’ preferences for principles-based versus rules-based standards in Indonesia. This paper also makes a methodological contribution to the literature by examining professional accountants’ preferences based on a hypothetico-deductive framework and a qualitative research approach. The hypothetico-deductive framework begins with a general claim or hypothesis and then tests its validity using putatively objective analysis and modelling, typically using quantitative and statistical methods (Brunkhorst, 1999;

Gaffikin, 2007). For the purpose of this paper, responses from 71 professional accountants to a survey questionnaire and 24 experts in an in-depth interview were used for the analysis.

This paper further contributes to the literature by responding to the call for research on issues related to globalization and convergence in the context of Islamic countries (Kamla, 2012, p. 189; Kamla & Rammal, 2013). In particular, this paper critically examine the global standards-setters' simplistic assumption on the universal preference for the principles-based standards in Indonesia, the largest Islamic population in the world (Central Inteligence Agency, 2014). Drawing from multidisciplinary literature including history, politics, sociology, anthropology and psychology, this paper suggests that there is a preference for rules-based standards in Indonesia despite the promotion of principles-based standards by convergence.

It is suggested that Islamic emphasis on the obligation to pay *zakat* (the religious levy), the prohibition of *riba* (usury), and the formation of an interest-free economic system has important implications for various Anglo-American accounting values and principles (Lewis, 2001, p. 117). The prohibition of *riba* (interest) is inconsistent with interest-related concepts such as the time-value of money and fair value measurement in Anglo-American accounting (Gambling & Karim, 1986; Gambling & Karim, 1991). Moreover, given that the primary objective of accounting in Islam is accountability for the *zakat* payment, it is suggested that the cash basis for revenue and income recognition are more suitable than the accrual basis accounting (Adnan & Gaffikin, 1997). Thus, concepts such as conservatism, matching and objectivity are considered inconsistent with Islamic purpose (Adnan & Gaffikin, 1997; Mirza & Baydoun, 2010). Islamic researchers have also raised concerns in respect to the going concern assumption in Anglo-American accounting based on the Islamic belief that only God will continue to exist indefinitely and it is unlawful (*haram*) to assume that something other than God shares this characteristic (Adnan & Gaffikin, 1997). Moreover, it is noted that the concepts of "true and fair view" and materiality that emphasize the financial aspect of information for investors' economic decision-making are insufficient in serving the wider purpose of Islamic accounting which requires more holistic information extending to non-financial information for the interest of the whole of society (Lewis, 2001; Rahman, 2010).

Most prior research in Islamic countries such as Bangladesh, Pakistan, Malaysia, Kazakhstan, Egypt, Iran, Turkey, and United Arab Emirates (UAE) has tended to examine the relevance to them of the principles-based standards with particular focus on reasons for IFRS adoption and companies' compliance with IFRS (Dahawy et al., 2002; Joshi & Ramadhan, 2002; Abd-Elsalam & Weetman, 2003; Ararat & Ugur, 2003; Askary & Jackling, 2004; Akhtaruddin, 2005; Ashraf & Ghani, 2005; Mir & Rahaman, 2005; Aljifri & Khasharmeh, 2006; Dahawy & Conover, 2007; Tyrrall et al., 2007; Al-Shammari, et al., 2008; Kholeif, 2010). Moreover, most prior research in Islamic countries has largely overlooked important contextual factors, including Islamic law and indigenous values, in examining convergence and professional accountants' judgments. Although its contributes to the literature, prior research in Islamic countries limits the richer understanding of accountants' preferences in applying global accounting standards, which is particularly relevant in this rush towards global convergence. As a socio-technical activity, the crucial issues in accounting are not simply a matter of getting the technical aspects correct, but also of understanding the linkage between a country's contextual factors and accountants' judgments with respect to preferences (Chand et al., 2010; Gernon & Wallace, 1995; Gray, 1988; Patel, 2003, 2006).

In contrast to the narrowly-focused approaches used by most prior studies in Islamic settings, this paper invokes a wider perspective by incorporating Indonesian social, political and economic factors including Islam and Javanese values (*adat*[1]) in developing its theoretical framework. In particular, this paper proposes that professional accountants in Indonesia are more likely to demonstrate a greater preference for rules-based standards.

The results from the hypothetico-deductive framework show that professional accountants in Indonesia demonstrate a significant preference for the rules-based approach only in respect of standard for Leases. The results largely failed to show a significant preference for the rules-based approach either in respect to the general application of accounting standards or specific standards for Investment in Associates and Business Combination. Thus, the hypothetico-deductive framework shows contradictory results that may lead to ambiguous conclusions. In contrast, results from the in-depth interviews provide evidence

[1] The concept of *adat* refers to customary laws and the unwritten traditional code prescribing accepted customs, beliefs, practices and institutions regulating social, political and economic as well as maritime and land laws inherited by communities rather than imposed by the state (Blackwood, 2001, p. 126; Henley & Davidson, 2008, p. 817). *Adat* also represents an abstract but powerful set of ideas regarding what an ideal society should be like focusing on authenticity, community, harmony, order and justice (Henley & Davidson, 2008, p. 817. (Additional details is presented in Chapter 2, p.41)

that professional accountants in Indonesia have realized that there is a rush toward global convergence along with the promotion of principles-based standards and accountants' professional judgments. In an ideal situation, professional accountants agree with the application of principles-based standards but feel they have given no choice but to adopt these standards in their work. However, in reality, when it comes to their current practices and application of specific standards, the professional accountants still prefer the rules-based standards. The results also reveal censures on the complexity and use of arbitrary judgments in applying the principles-based standards. In turn, the results highlight questions with respect to reliability and comparability of financial information under convergence. Furthermore, the interview results support the notions that as the convergence is biased by emphasizing the interests of large accounting firms and multinational enterprises, it largely promotes the Anglo-American interest and hegemony across countries. Thus, this paper's findings challenge the global standards-setters' simplistic assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards.

The remainder of this chapter is organized as follows. Section 3.2 provides a literature review for this chapter. This section focuses on discussions related to principles-based versus rules-based standards including "substance over form" and "true and fair view" (TFV) concepts and prior research on the application of principles based-standards. Subsequently, the section presents relevant contextual factors and convergence in Indonesia with a focus on Islam, Javanese values (*adat*) and accounting development in Indonesia. The section is then incorporating discussions on an important personality variable, Construal of Self, and its implication on judgments with regards to preferences. Section 3.3 outlines the hypothetico-deductive framework and the qualitative research approach used in this paper. Section 3.4 presents the results and discussion of the respective quantitative and qualitative research approaches invoked in this paper. Finally, Section 3.5 discusses the conclusions and implications of this paper' findings for research methodology in accounting and for global and national standards-setters and accounting firms.

3.2. Literature Review

3.2.1. Rules-Based Standards versus Principles-Based Standards

The debate over principles-based versus rules-based approach in standard-setting has gained prominence especially since the occurrence of huge corporate scandals such as Enron and WorldCom in the US. It is claimed that these scandals, among other things, were caused by the nature of the US accounting standards that is more rule-based (Kershaw, 2005; Maines, 2007; Nobes, 2005). Indeed, the US generally accepted accounting principles (GAAP) are widely referred to as more detailed, more prescriptive, and more rule-based than the UK GAAP and the IFRS (Agoglia et al., 2011; Benston et al., 2006; Dean & Clarke, 2004; Kershaw, 2005; Maines, 2007; Nobes, 2005). The rules-based approach in developing accounting standards focuses strongly on the legalistic approach that requires very little exercise of accountants' professional judgments. Rules-based standards contain specific criteria, numerical thresholds, examples, scope restrictions, exceptions, subsequent precedents, implementation and guidance (Alexander, 1999; Beechy, 2005; Carmona & Trombetta, 2008; Maines, 2007; Nelson, 2003; Schipper, 2003; Sunder, 2010).

There are a number of reasons why some constituents, such as financial statement preparers and auditors, may prefer rules-based standards (Maines, 2007, p. 360-361). First, a rules-based approach simplifies the application of the standards and reduces the need for preparers to make judgments in today's business environment that has grown increasingly complex and requires difficult judgments about proper financial reporting. Second, the precision of rules-based standards reduces the chance that individuals will disagree on the application of standards, and therefore decreases the likelihood of restatements and other penalties that can arise from incorrect application of financial accounting reporting rules. Finally, detailed rules can provide a template for structuring business arrangements to achieve desired financial results, such that some managers like rules-based standards precisely for the reasons that have raised red flags about corporate reporting. In addition to transaction structuring, managers can gain opportunities for financial statement management by lobbying for special treatment for certain types of business arrangements.

However, critics note weaknesses in the rules-based standards (Maines, 2007; Maines et al., 2003). First, detailed standards are more likely to be incomplete or even obsolete by the time they are published. Second, such detailed standards are more likely to provide self-interested managers the opportunity to manipulate the reported results under the appearance of complying with the rules. In other words, these standards are more likely to provide company managers the opportunity to structure transactions to meet the requirements for particular accounting treatments, even if such treatments do not reflect the true economic substance of the transaction, and thus hinder transparent financial reporting. Finally, auditors are more likely to find it difficult to prevent such manipulations of reported financial results when detailed rules serve as the managers' justification (Maines, 2007; Maines et al., 2003). Thus, these standards hinder the effectiveness of the auditor's role to monitor management's impulses to act opportunistically in financial reporting.

The most commonly cited example of rules-based standards is the US Statement of Financial Accounting Standards (SFAS) No. 13 on Leases. This statement provides two approaches for recording leases. In a capital lease, the lessee treats the lease as similar to a purchase with a loan, recording both a lease asset and a lease liability in the balance sheet. In an operating lease, no asset or liability is recorded. Four rules related to the characteristics of the lease contract determine the approach a company must take for a particular lease. For instance, if the lease term is at least 75 percent of the asset's life, the lease must be reported as a capital lease. The four bright-line rules provide precise guidance to companies on how to structure lease contracts to obtain a particular financial reporting treatment. For example, a company that does not want additional liabilities on its balance sheet could structure a lease contract to have a lease term of 74 percent of the asset's life. While such a contract is a capital lease in substance, its form would not meet the 75 percent rule required for capital lease reporting (Maines, 2007, p. 360).

Empirical evidence provides supports for the higher opportunity of transaction structuring under the application of the rules-based approach. Baker and Haynes (2004) show that the spectacular rise and fall of Enron Corp. in the US offers a vivid illustration of how companies can use the legal form of transactions to obscure the economic substance underlying those transactions. The authors examine Enron's use of transaction structuring and misleading accounting practices in relation to off-balance-sheet financing, revenue recognition, and financial statement disclosures in order to present favorable financial information in their published financial reporting.

Moreover, Nelson et al. (2002) surveyed 253 audit partners on their experience with 515 attempts at earnings management by their clients' reports. The results shows that managers are more likely to attempt earnings management with transaction structuring under more precise standards (such as leases, equity vs. cost method and consolidations) than when standards are more flexible. Correspondingly, auditors are more likely to permit earnings management attempts through transaction structuring to stand when governing rules are precise and the transaction structuring is consistent with the rules. Nelson et al. (2002) found that when the standard provides no numerical thresholds for managers to use in transaction structuring, they are less likely to engage in costly transaction structuring. However, with such concepts-based standards, managers are more likely to justify earnings management attempts by convincing the auditor of their interpretation of the imprecise rules. Auditors are more likely to permit such earnings management attempts to stand when the accounting is governed by more flexible or subjective standards.

In another study, Dye (2002) examines transaction structuring by modelling analytically the manager's financial reporting process as one of classification manipulation. That is, for many standards, there is a generally preferred outcome, such as operating rather than capital lease treatment, and classification manipulation results in more firms attaining the preferred accounting treatment than would otherwise be the case under GAAP. The author concludes that such manipulation reduces the effectiveness of rules in a standard to distinguish among true economic differences in transactions. Rather, classification manipulation leads to a shadow standard that simply demarks the boundary between those firms that are or are not willing to pay the cost needed to structure a transaction to secure the more favorable classification. In other words, Dye (2002) provides support for Nelson et al.'s (2002) conclusion that rigid standards will increase managers' ability to manipulate financial reporting outcomes opportunistically, and thus weaken the effectiveness of the standard.

Those financial reporting scandals and criticisms of rules-based standards lead to increasing support for the adoption of the principles-based approach in standards setting. It is reported that principles-based standards only provide fundamental understandings that inform business transactions and these understandings dominate any other rule established in the standard (Alexander, 1999; Beechy, 2005; Carmona & Trombetta, 2008; Maines, 2007; Nelson, 2003; Schipper, 2003; Sunder, 2010). Importantly, main characteristic of the principles-based approach is that it relies strongly on the “substance-over-form” concept that requires examination of the nature and context of business transactions rather than fixation on their legal form (Agoglia et al., 2011; Bennet et al., 2006; IASC, 2000, p. 24; McEnroe & Sullivan, 2013; Schipper, 2003). Thus, principles-based standards impose a greater responsibility on company managers and auditors to exercise their professional judgments to report the underlying economic substance of transactions (Maines, 2007).

The objective of financial reporting is to provide transparent financial information which refers to the presentation in published accounts of financial reporting of the economic substance of transactions rather than their legal form (Hayes & Baker, 2004; Maines et al., 2003). In turn, the strong reliance on the “substance-over-form” concept is claimed to be the reason the principles-based approach is superior in achieving the objective of transparent financial reporting. Indeed, as indicated by the international standards setters such as the IASB and IFAC, they adopted the rules-based approach to achieve their objective of a uniform high-quality set of international standards (Kershaw, 2005; Maines, 2007). Thus, as noted earlier, an implicit assumption underlying the IASB and IFAC's approach is that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards.

Beside the concept of “substance over form,” it is important to note that the principles-based approach is also closely related to the concept of “true and fair view.” As Nelson (2003) noted, a more principles-based approach to standard setting would involve fewer rules and exceptions and would include the “true and fair view” concept to require that the accounting for transactions reflected their underlying economic substance. Moreover, Baker and Haines (2004) explained that the “substance over form” concept is enforceable against companies which issue financial statements in accordance with standards issued by the international accounting standards setters such as IASB and IFAC, and that auditors must provide opinions as to whether such financial statements present a “true and fair view” of the financial position and results of the operation of a company in accordance with those standards (Baker Haines 2004). Thus, it can be concluded that the “substance over form” concept is especially related to the professional judgments of company managers in preparing financial statements, while the “true and fair view” concept mostly related to the professional judgments of auditors in formulating their opinions regarding the presentation of their clients’ financial reporting.

3.2.1.1. "Substance over form" concept

The IASB defined "substance over form" as an identical concept as faithful representation, as follows:

> *Faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form (IASB, 2010, BC3.26)*

To accurately reflect a company's financial position and the results of its operations, accounting standards should be applied in a way that is faithful not only to the language of the standard, but consistent with the economic substance underlying the economic transactions of the entity. Seeking loopholes to find ways around the language of the standards confuses financial reporting and harms users of financial statements by creating information that is not a true reflection of economic reality. As such, the "substance over form" concept is intended to restrain creative accounting, which is an opportunistic stretching of the rules by a preparer of financial statements in order to achieve an effect desired by the preparer, such an effect being either to mislead the reader of the financial statements and/or to comply with some condition such as a debt covenant that would not be met without stretching the rules (Alexander & Archer, 2003).

3.2.1.2. "True and fair view" (TFV) concept

The application of the "substance over form" concept is closely related with the concept of the "true and fair view" (TFV), as noted earlier. The key issue is how the principle of "substance over form" is to be interpreted. "True and fair view" has to fulfill two separate tests to be satisfied by preparers of financial statements. In the first instance they are to comply with the relevant accounting standards, but there has also to be an assurance that such compliance produces financial statements that depict a "true and fair view" of a company's financial position and financial performance (Dean & Clarke, 2005; Reinstein & McMillan, 2004).

It is important to note that the "true and fair view" concept is one of the legal or professional standards for financial reporting quality that have been subject to debate on their meaning, use and importance (Kirk et al 2006). "True and fair" is deliberately not defined as it is perceived to be a dynamic concept having a technical meaning distinct from its natural meaning (see Hoffman and Arden, 1983). Similarly, Hamilton and

Hogartaigh (2009) explored the role and context of the "true and fair view" in accounting and auditing by utilizing the work of Bourdieu as a lens. The authors argue that the world of the "true and fair view" is a subjective world with which accountants think they are objectively familiar. Bourdieu's practical theory of habitus suggests that the "true and fair view" is shaped by the practice of those professional accountants who have a "feel for the game." Moreover, the authors argue that the conceptualization of the "true and fair view" privileges practice and authenticates the accounting habitus. Hence, whilst language maintains and reinforces social structures, it is in turn created by the routines of practice. By dominating the declaration of the "true and fair view," the auditor effectively reinforces the status quo and the constitution of hierarchy and inequity that exists in the accounting field: the "true and fair view," in Bourdieu's terms, "becomes what they are" (Hamilton & Hogartaigh, 2009, p. 918).

It is noted that the "true and fair view," which is more common in the European Union, is closely identified with judgments (Alexander, 1993, 1996, 1999; Nobes, 1993, 2000; Ordelheide, 1993, 1996; Alexander and Archer, 2000, 2003; Aisbitt and Nobes, 2001). In contrast, in the more rule-based approach of US financial reporting, the related concept of financial reporting quality means to "present fairly in accordance with generally accepted accounting principles" (Schipper, 2003; Nelson, 2003; Nobes, 2005). It is suggested that in the US, compliance with the letter of GAAP is understood as being a sufficient condition for providing a "fair presentation" (Zeff, 2007). As also indicated by Dean and Clarke (2004, p. ii) "there is considerable confusion as to the primacy of "true and fair." The professional accountancy bodies and most accountants and auditors appear to proceed on the assumption that "true and fair" is a second order imperative, and that primacy lies in compliance with the accounting standards" (Dean & Clarke, 2004, p. ii).

In the UK, audit reports do not make an explicit reference to "accordance with generally accepted accounting principles," but rather state that the accounts "give a true and fair view" of the financial condition of the company (Martens & McEnroe, 1992, p. 391). Furthermore, the UK accounting standards have recognized "true-and-fair override" rules for a long time. Override results if it can be argued that compliance with an applicable accounting standard would fail to reflect the substance of a transaction, then it follows that such compliance would not achieve a faithful representation of a company's financial information and cannot be a necessary condition of doing so (Alexander, 2003). The true-and-fair override, would allow, even require, companies and attesting auditors not to follow a standard or rule if its application would result in the financial statements not presenting a true and fair view of the company's financial position, results of operations and cash flows (Benston, 2006).

Interestingly, however, the true-and-fair overrides have rarely been used in the past (Benston, 2006). This is because the freedom to override is restricted by a number of constraints, including the need to receive external auditor approval for any override, the wish of those contracting with the company to lay down the accounting methods used by the firm (at least for contracting purposes), the industry in considering the application of the override, and concern that the use of the override might cause adverse publicity. Overcoming these restrictions could be burdensome for the company seeking to use the override. Moreover, given the flexibility provided in the UK's essentially principles-based standards for the proper exercise of professional judgment, the need for recourse to the override is substantially limited (Benston, 2006).

The "true and fair view" puts an important focus on auditors' judgments. In their public role auditors are required to base their opinions on the substance rather than the form of the transactions underlying accounting numbers. An independent audit usually results in the provision by the auditor of an unqualified opinion on the corporate annual report. Anything less than an unqualified opinion creates the perception of increased risks associated with the entity's financial condition for investors and creditors. The essence of an unqualified opinion is the attestation that the financial statements, which are representations of management, "present fairly" the financial position of the company and the results of its operations in conformance with generally accepted accounting principles (Martens & McEnroe, 1992).

In particular, there is a possibility that financial statements could be in accordance with GAAP but not fairly present financial condition. Thus, auditors should use professional judgment in deciding whether financial statements "present fairly," not only must it be determined that those statements are in conformity with GAAP, it must also be decided that they are not misleading by failing to reflect the "substance" of the business transactions represented in their components (Martens & McEnroe, 1992, p.390). In fact, the US Statement of Auditing Standards No. 58 (Auditing Standards Board, 1988) specifically requires a statement in the auditor's standard report that the audit includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation (Martens & McEnroe, 1992, p.390).

The adoption of the principles-based approach by the IASB and IFAC implicitly suggests that the application of principles-based standards is more likely to be effective in improving transparency and achieving comparability of financial information across countries. This suggestion is, at least, based on two criteria. First, the inherent flexibility in the principles-based standards is believed to be a more effective fraud deterrent (Carmona & Trombetta, 2008). Second, the standards' extensive reliance on professional judgments is thought to provide the best context for the accountants to play an active role in detecting and preventing disrupting situations (Baker & Hayes, 2005). However, despite the expectations that principles-based standards will improve financial reporting compared to a rules-based system, no empirical evidence is available to support these beliefs. Moreover, some critics point out characteristics of these standards that may impede the achievement of comparability of financial information. First, the inner flexibility of the principles-based approach enables the application of IFRS in countries with diverse accounting and institutional environments. Moreover, the principles-based approach brings about a number of fundamental changes in the skills of accountants and auditors. Specifically, preparers and auditors will have to gain deeper expertise in both business arrangements and accounting principles. While such expertise has always been necessary, its importance is elevated when applying the principles-based standards. In addition, accountants will need to thoroughly understand the nature of business arrangements and how the characteristics of those arrangements map onto the general principles in the conceptual framework. The ability of accountants to reason by analogy also will become more important as examples replace detailed implementation guidance in financial reporting standards (Maines, 2007, p. 362). Thus, there is still a long way to go in the comparability of accounting measures across countries and regions (Carmona & Trombetta, 2008).

Second, recall that principles-based standards strongly rely on professional judgments and expertise for the application of standards by professional accountants (Carmona & Trombetta, 2008; Maines et al 2003; Schipper, 2003). The latitude inherent in principles-based standards allows managers to choose accounting treatments that reflect their informed understanding of the underlying economics of transactions. In accounting, judgment refers to the principles and criteria by which accounting professionals make a choice from amongst a set of possible accounting policies, accounting estimates, or disclosures. What differentiates professional judgments from non-professional judgments is the underlying set of principles and criteria that a person has internalized through accounting education and accounting practice (Beechy, 2005). However, it is also suggested that the latitude in principles-based standards may also permit managers to advocate reporting treatments that do not reflect the underlying economics of a transaction. Managers, audit committee members, and auditors must possess both expert judgment and a desire for unbiased reporting in order for conceptual standards to result in financial reporting that reflects underlying economics (Maines et al., 2003).

3.2.1.3. Research on the application of principles based-standards

The promotion of principles-based standards and the use of uncertainty expressions in IFRS have attracted increasing research interest in examining their application. A number of studies have provided evidence to support criticisms of principles-based standards. For example, previous studies show that while numerical thresholds encourage transaction structuring, auditors are more likely to accept earnings-management attempts under more flexible or subjective standards than under the detailed standards (Fornaro & Huang, 2011; Maines et al., 2003; Nelson, 2003; Nelson et al., 2002). Moreover, evidence suggests that the application of principles-based standards coupled with the shift toward the inherent subjectivity of fair value measurements causes significant impairment on the ability to limit managements' opportunism and their accountants' ability to detect them (Jamal & Hun-Tong, 2010). Importantly, the heavy reliance on accountants' professional judgments may cause a greater variability in applications of principles-based standards, thus adversely influencing the achievement of comparability of financial information within and across countries (Carmona & Trombetta, 2008; Heidhues & Patel, 2012b; Nobes, 2006; Zeff, 2007).

More recently, Agoglia et al. (2011) show that listed companies' CFOs exhibit more agreement and are less likely to report aggressively under a more principles-based standard than under a more rules-based standard. On the other hand, under a more rules-based standard, those CFOs are less likely to report aggressively in the presence of a strong audit committee than a weak audit committee. In contrast, the study shows that audit committee strength has no effect in a more principles-based regime where preparers are more concerned about regulator second-guessing and reporting the economic substance of a transaction regardless of audit committee strength. Finally, the results support three-path mediating in which concern about second-guessing by regulators and the desire to report the economic substance of a transaction sequentially mediates the relationship between standard precision and preparers' aggressive financial reporting.

In another study, Bailey et al. (2012) show that type of standards (rules-based vs. principles-based standards) by themselves did not affect investment choice or allocation decisions. However, when trust was considered, non-professional investors who are less trusting of our current financial reporting system choose to invest in a company with more positive financial results only when evaluating principles-based financial statements. Conversely, the type of standard did not affect investor decision making for non-professional investors who trust the current financial reporting system.

In relation to the use of uncertainty expressions in IFRS, previous research provides evidence of that professional accountants from different countries do not interpret and apply the uncertainty expressions contained in the accounting standards in the same way (Chand et al., 2011; Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004; Hronsky & Houghton, 2001). Cross-cultural studies such as Doupnik and Richter (2004) and Doupnik and Riccio (2006) examined the interpretation of "in context" uncertainty expressions by providing professional accountants with relevant excerpts from the accounting standards containing the uncertainty expression. Doupnik and Richter (2004) investigated the effect of national culture on the interpretation of "in context" uncertainty expressions. They developed hypotheses on how the accounting value of conservatism and the context in which probability expressions are used, will impact on accountants' interpretations of those expressions. Using professional accountants from the US and Germany, they find significant differences between both groups in the interpretation of several verbal probability expressions. Their findings indicate that, in most cases, German accountants are more conservative; for example, Germans exhibit a conservative bias in their interpretation of the word "probable" when used across a variety of accounting contexts. The results suggest that culture influences the interpretation of uncertainty expressions used in accounting standards in a systematic and predictable manner.

Extending Doupnik and Richter's study (2004), Doupnik and Riccio (2006) also hypothesized that accountants in a country characterized by high conservatism and high secrecy like Brazil, are likely to assign higher numerical probabilities to uncertainty expressions that establish the probability threshold for the disclosure of information than accountants in a country with low conservatism and low secrecy, such as the US. Their results partially support the conservatism hypothesis; that is, the results support their first conservatism hypothesis relating to the recognition of income-increasing items, although no support is found for their second conservatism hypothesis relating to income-decreasing items. In general, the results support their hypothesis relating to secrecy and disclosure (Doupnik & Riccio, 2006, p. 237). As the authors suggest, "the results of this study have negative implications for the consistency with which a common accounting standard might be applied across cultural areas, which could adversely affect the cross-national comparability of financial statements" (Doupnik & Riccio, 2006, p. 239).

More recently, Chand et al. (2011) identify the extent of cultural differences between Australian and Chinese final year undergraduate accounting students in a tertiary institution in Australia. The authors examined whether the cultural differences between these student groups influence the interpretation and application of uncertainty expressions that are used as recognition and disclosure thresholds in IFRS. The results obtained on the cultural dimensions of Uncertainty Avoidance, Individualism, Power Distance, Masculinity and Long-Term Orientation provide evidence that Chinese accounting students exhibit greater conservatism and secrecy compared to Australian accounting students. To test the relevant hypotheses, 15 excerpts containing uncertainty expressions were selected from nine different IFRS-based standards in Australia. The selected uncertainty expressions were insignificant, assumed beyond any reasonable doubt, probable, substantially, remote, sufficiently, reasonably certain, major part, significant influence, more likely, less likely, deemed, more likely than not, expected and control. The results of the study show that national culture has a significant effect on the judgments of accounting students when interpreting and applying selected IFRS containing uncertainty expressions, despite the location of their tertiary education. Specifically, there are significant differences between Australian and Chinese accounting students when assigning numerical probabilities to the 15 uncertainty expressions used in the study (Chand et al., 2011).

It is important to note that the cross-cultural studies suffer from theoretical and methodological limitations, and thus largely failed to offer rich insights into the cultural influence on accounting in these countries. Most these prior studies have largely relied on narrowly-focused dimensions and categorizations, such as Hofstede's (1980), Hofstede and Bond's (1988), to draw theoretical links between cultural values and judgments in those different countries. Researchers have raised criticisms with respect to the simplistic assumptions as well as the theoretical and methodological limitations of Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions and Gray's (1988) accounting values (Baskerville, 2003; Heidhues & Patel, 2011; Patel, 2004). For example, Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions are criticized because it equated nation states with cultures based on the simplified assumption and categorization that any society is homogenous and overlooked incorporating within-country differences (Baskerville, 2003). As such, it is suggested that relevant contextual factors be incorporated to provide richer and deeper understandings of interrelationships between cultural values and accounting (Heidhues & Patel, 2011; Patel, 2004, p. 71).

The most recent study was a study by McEnroe and Sullivan (2013) examining preferences of accounting experts regarding rules-based versus principles-based approaches in the US setting. The study focuses on ten rules-based standards in US accounting including those related to the decision to report investments using the equity method, to consolidate an investment, to include an item as a cash equivalent, to expense research and development expenditures and to report a lease as a capital lease rather than an operating lease. The study asked the participants' opinions whether the elimination of the specific rule would be likely to better achieve the qualitative characteristics of useful financial information of financial reporting. Using a sample of auditors in large accounting firms and Chief Financial Officers in the Fortune 1000 companies, the study found that both groups preferred the rules-based accounting approach which is currently used in US GAAP to a principles-based approach. Moreover, the study show that auditors and financial officers perceive that, in some specific cases, the qualitative characteristics of the Conceptual Framework are likely to be better achieved by the retention of quite specific rules in financial reporting standards rather than by eliminating those rules (McEnroe & Sullivan, 2013, p. 203).

3.2.3. Prior Research on Principles-Based Standards in Islamic Countries

Given the rush toward global accounting convergence, prior accounting research has examined the application of principles-based standards in Islamic countries such as Bahrain, Egypt, Iran, Jordan, Turkey, the United Arab Emirates (UAE), Kazakhstan, Pakistan, Bangladesh, Malaysia, and Indonesia (e.g., Joshi & Al-Basteki, 1999; Dahawy et al., 2002; Joshi & Ramadhan, 2002; Abd-Elsalam & Weetman, 2003; Askary & Jackling, 2004; Akhtaruddin, 2005; Ashraf & Ghani, 2005; Mir & Rahaman, 2005; Aljifri & Khasharmeh, 2006; Ali & Ahmed, 2007; Dahawy & Conover, 2007; Perera & Baydoun, 2007; Tyrrall, et al., 2007; Al-Shammari, et al., 2008; Irvine, 2008; Alp & Ustundag, 2009; Bhattacharjee, 2009; Kholeif, 2010; Samaha et al., 2012; Al-Akra et al., 2009). However, there is an absence of research that has rigorously examined professional accountants' preferences on the interpretation and application of principles-based standards in this context. Most prior studies focused their examination on companies' compliance with IFRS (Abd-Elsalam & Weetman, 2003; Akhtaruddin, 2005; Al-Akra et al., 2009; Al-Shammari et al., 2008; Askary & Jackling, 2004a; Joshi & Ramadhan, 2002; Samaha et al., 2012), the explanation for IFRS adoption by invoking institutional theory (Irvine, 2008; Kholeif, 2010; Mir & Rahaman, 2005) and the influence of several contextual aspects on IFRS' application (Ali & Ahmed, 2007; Aljifri & Khasharmeh, 2006; Alp & Ustundag, 2009; Ashraf & Ghani, 2005; Bhattacharjee, 2009; Joshi & Al-Basteki, 1999; Joshi et al., 2009; Perera & Baydoun, 2007; Tyrrall et al., 2007).

A number of previous studies found mixed results in respect of accountants' perceptions regarding the adoption of IAS/IFRS in Islamic countries such as Bahrain, Bangladesh, Kazakhstan and Pakistan. For example, Joshi and Al-Basteki's survey (1999) on perceptions of accountants regarding whether organizations in Bahrain should continue to comply with IAS found that participants preferred they did, and differences in the socio-political environment do not make IAS of less significance to users in Bahrain. Joshi & Ramadhan (2002) examined the accounting practices and the degree of adoption of IAS by small and closely held companies in Bahrain. They also revealed that external auditors exerted the greatest influence on firms to adopt IAS. The results also indicated that the majority of respondents did not find the adoption of IAS costly and that no serious problems were found in interpreting IAS. More recently, Joshi et al., (2008) investigated Bahrain's accounting and auditing professionals' perceptions about important issues relevant to developing and implementing global accounting standards. The respondents' views portray optimism by auditors and non-auditors alike that harmonization of accounting standards is a worthwhile objective that can be fairly, even if gradually accomplished. However, the survey data indicates expected challenges in applying the IFRS principles-based accounting standards. The survey findings suggest that there will be a growing demand for detailed application guidance for IFRS.

In another study, Tyrall (2007) examined the relevance and implementation of IFRS to the emerging economy of Kazakhstan. Using several contextual aspects, namely, economic and social environment, size of the public and private sectors, the state of development of the capital market, and the accounting needs of the country, the results show that there is less support for the current relevance of IFRS to the wider range of Kazakh firms and investors, although a stronger, developmental, mode of argument in respect to all four factors could be made for the relevance of IFRS in Kazakhstan in the future as both the private sector and the private capital market expand. Similarly, in investigating the relevance of IAS in Bangladesh, Bhattacharjee's (2009) study shows that a common view among cost and management accountants, academics and business leaders was that the wholesale importation of the highly sophisticated rules like IAS is not suitable for the less sophisticated economic and regulatory structure of Bangladesh. The study also showed that most of the chartered accountants the author consulted expressed their doubt on the suitability of wholesale adoption of IFRS in Bangladesh.

It is important to note that most of these studies suffer from theoretical and methodological limitations, and thus largely failed to offer rich insights into the contextual, cultural and religious influences on accounting in these countries. The first important limitation is that the simplified assumption of homogeneity in values and judgments of accountants within and across Islamic countries has largely dominated studies investigating the influence of Islam on accounting (Askary & Jackling, 2004a; Al-Shammari et al., 2008). For example, both Askary and Jackling (2004a) and Al-Shammari et al. (2008) investigated compliance with International Accounting Standards (IAS) in several Islamic countries. Focusing on twelve countries, Bangladesh, Indonesia, Malaysia, Bahrain, Iran, Jordan, Kuwait, Oman, Pakistan, Qatar, Saudi Arabia and Turkey, Askary and Jackling (2004a) argued that, despite the differences in demographic characteristics, political regimes, governmental structures, legal systems, and some facets of social structure, the overall social values of these selected Islamic countries are the same according to Hofstede (1980), Gray (1988) and Perera (1989). Similarly, focusing on the

Gulf Co-Operation Council (GCC) member states of Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, Al-Shammari et al. (2008) highlighted the strong economic and cultural ties between the GCC states as the basis of their development of theory and formulation of hypotheses. Thus, these authors expected a strong interaction between religion and disclosure practices in these countries that would be indicated by accounting practices that conform to Islamic principles of transparency there. On the contrary, both studies found that there are significant differences in compliance with IAS among their selected Islamic countries. However, given their strong reliance on quantified and simplified approaches, these studies could not provide particularly rich explanations with regard to their unexpected findings. Thus, while contributing to the literature, these sudies largely failed to provide insights into the evolving and changing context and nature of Islam and to take into account possibilities of between and within country differences.

Furthermore, most researchers have also assumed that findings in Anglo-American countries are equally applicable to Islamic countries. This is evident in most prior studies in Islamic countries that mostly borrowed Anglo-American approaches without a critical evaluation of their limitations in capturing Islamic influences on accounting. As a consequence, most of these studies overlooked the incorporation of *Sharia* in their theory development and hypothesis formulation. As an example, most prior studies investigated the relevance of the application of principles-based standards in various Islamic countries using the indirect measure of compliance with IFRS while focusing on firm characteristics such as size, industry, leverage, ownership type and auditor type (Abd-Elsalam & Weetman, 2003; Akhtaruddin, 2005; Al-Akra et al., 2009; Al-Shammari et al., 2008; Askary & Jackling, 2004a; Joshi & Ramadhan, 2002; Samaha et al., 2012). A number of researchers have undertaken a more critical approach by incorporating institutional influences in investigating the relevance of the application of principles-based standards in various Islamic countries (Mir & Rahaman, 2005; Irvine, 2008; Kholeif, 2010). However, these studies still largely failed to take into account other important contextual factors including cultural and Islamic influences on accounting in the countries under investigation.

Although a number of studies contributed to the literature by taking into account contextual aspects of an Islamic county in their investigation, most of them tend to focus their theory development and hypothesis formulation on a given country's economic and accounting history while largely overlooking other important contextual aspects, importantly the influence of Islam and indigenous values of the country under investigation (Ashraf & Ghani, 2005; Aljifri & Khasharmeh, 2006; Ali & Ahmed, 2007; Perera & Baydoun, 2007; Tyrrall et al., 2007; Alp & Ustundag, 2009; Bhattacharjee, 2009). Thus, while contributing to the literature on accounting practice in Islamic countries, these studies largely failed to provide particularly rich insights into the influence of contextual factors, culture and Islam itself on accounting in this unique setting.

Limitations of prior studies in Islamic countries indicate the importance of incorporating relevant contextual factors, social, political and economic, including culture, in examining accounting preferences and judgments in Islamic countries. This is consistent with Patel's (2004, p. 71) suggestion for drawing cultural values from historical, sociological, psychological and other relevant literature that would identify and provide an understanding of the core and also the peripheral values in a given society. Supporting this suggestion, Heidhues and Patel (2011) and Hellmann et al. (2010) provide evidence that, in contrast to reliance on narrow and simplistic categorization, specific cultural, economic, and social, and legal environments can provide rich insights in the understanding of the German accounting model and its tendency to restrict financial disclosures, and issues associated with the country's convergence process with IFRS, respectively.

3.2.4. Holistic Insights into Relevant Contextual Factors and Convergence in Indonesia

3.2.3.1. Islam

A rigorous examination of relevant contextual influences in a given Islamic country context such as Indonesia cannot be conducted without incorporating the influence of Islam and Islamic law (*Sharia*). *Sharia* is an Arabic word that means "the Path to be followed." The main source of *Sharia* is the Quran, which is believed to be God's words. Though the Quran does contain legal prescriptions, it is mainly concerned with general ethical principles and guidelines rather than strict instructions. Therefore, the Quran is supplemented by other sources to form the basis of *Sharia*. The second primary source of *Sharia* is *Sunna*, which means "tradition," referring to the oral teachings or behavior of the Prophet Muhammad. In addition to the Quran and *Sunna*, other supplementary sources include analogy (*qiyas*), consensus among Muslim scholars (*ijmaa*), and independent juristic reasoning (*ijtihad*). Analogy (*qiyas*) is a restricted form of *ijtihad*, reasoning by analogy. *Qiyas* was defined as "establishing the relevance of a ruling in one case to another case because of a similarity in the attribute (reason or cause) upon which the ruling was based." The fourth source of law, *ijmaa*, can be defined as the consensus of opinion of the companions of the Prophet and the agreement reached on the decisions taken by learned Muftis or Jurists on various Islamic matters. The fifth source of law is *ijtihad*. The Arabic word *ijtihad* literally means "strenuousness" and technically means an effort or an exercise to arrive at one's own judgment. To be more precise, *ijtihad* refers to exercising independent juristic reasoning to provide answers when the Quran and *Sunna* are silent. In a broader sense, it is the use of human reason in the elaboration and explanation of the *Sharia*, interpretation of the texts of the Quran, and their application in concrete situations (Anwar & Rumminger, 2007; Mashhour, 2005; Mir-Hosseini, 2009).

After the end of the divine revelation with the Prophet's death, *ijtihad* was needed to answer new questions resulting from the expansion of Islam into new societies and cultures. This exercise of *ijtihad* during the eighth and ninth centuries led to the development of four schools of jurisprudence (*mazhab*) followed today by the vast majority of Sunni Muslims, namely Hanafi, Maliki, Shafii and Hanbali. However, this process of *ijtihad* did not continue for long. It is claimed that as *Sharia* matured as a legal system and the need for developing fresh principles and rules was perceived to be diminishing, room for *ijtihad* was seen to be narrowing to the point of extinction (Mashhour, 2005, p. 567). This phenomenon is known in the history of Islamic jurisprudence as the closing of the gates of *ijtihad*. The gates are believed by the majority of Islamic followers (*Muslims*) to have remained closed since the tenth century up to the present time. Some recent and contemporary Islamic scholars have been demanding the reopening of the gates of *ijtihad*. Others argue that the gates have never been closed and that *ijtihad* was conducted continuously but with a very narrow scope, which led to the stagnation of Islamic jurisprudence (Mashhour, 2005, p. 567).

It is important to note that *qiyas*, *ijmaa* and *ijtihad* are human creations and based on independent judgments of Islamic scholars. This shows that *Sharia* is as a set of flexible rules and fluid regulations and is not supposed to be static, but dynamic (Mashour, 2005; Tucker, 1998). The interpretation of Islamic law is subject to the judges' (qadi) and jurists' (*mufti*) discretion and subjectivity and incorporating the customs and norms (*'urf*) of their communities (Shehada, 2009). This also show that the role of *ijtihad*, guided by the principles of justice, equity and public welfare, is crucial in responding to changing social needs (Mashhour, 2005, p. 567). However, it is suggested that the close of *ijtihad*, the role of modern states in providing legal backing for various Islamic norms, and the codification of Islamic law lead modern *Sharia* into a prescriptive, rigid and inflexible set of rules (Sanadjian, 1996; Sonbol, 1996; Tucker, 1998)[2]. Codification was originally designed to “fix” a standard and definitive interpretation of *Sharia*, thus standardizing it and minimizing the judges’ subjectivity (Tucker, 1998, p. 185). When Islamic norms are codified, they become rigid due to the tendency of Islamic scholars to draw strict lines between what is lawful (*halal*) and what is unlawful (*haram*), which contradicts the Quranic verses defining all practices that are not specifically prohibited as being permissible (Sanadjian, 1996; Tucker, 1998, p. 185).

The basic principle of *Sharia*, unity (*tawhid*), demands total dedication to the will of God and encompasses both submission and a mission to comply with Islamic *Sharia* in every aspect of life such as religious (*ibadah*) and commercial activities (*muamalat*) including accounting (Baydoun & Willett, 2000; Rizk, 2008). *Tawhid* provides insights into the belief that all human activities should endeavor to attain success in the world and also in the hereafter (*falah*) (Askary & Jackling, 2004b; Gambling & Karim., 1991). In relation to social life, *tawhid* indicates that Islamic emphasis on society, be one united body (*ummah*), with a strong relationship with each other (Askary & Jackling, 2004b; Sulaiman & Willett, 2003). It is explained that individual right is recognized in Islam but an individual is required not to think solely about oneself (Askary, 2004). Thus, the *tawhid* concept gives insights into Islamic emphasis on social justice (Baydoun & Willett, 2000; Hamid et al., 1993).

Sharia also has implications in relation to accounting. A number of Islamic economic and financial principles that have direct impact on accounting including the obligation to pay *zakat*[3](the religious levy), the prohibition of *riba* (usury, which commonly refers to

[2] Research has been conducted to provide evidence for flexibility, rather than rigidity, of Islamic law. For example, based on ethnographic materials from an extensive fieldwork in 2002–2003, Shehada (2009) challenged the inflexibility claim by focusing on contemporary practices of Islamic family law in Palestine. The author argues that, despite codification, Islamic family law in many Islamic countries is still characterized by flexible, heterogeneous and context-based implementation (Shehada, 2009, p.28). The findings show that, besides the role of the state, it is important to take into account the role of other actors, such as the judges, in influencing changes in the application of Islamic family law.

[3] *Zakat* is one of the five pillars of Islam which refers to a responsibility to give charities to reduce social inequality. *Zakat* was paid one fortieth (0.25 percent) of accumulated assets in a year, if the total assets

charging interest), and the formation of an interest-free economic system (Lewis, 2001, p. 117). The payment of interest and the taking of interest that occurs in a conventional banking system are prohibited in Islam, such that an investor must be compensated by other means. It is explained that, if money is used for non-productive purposes, the lender does not have a claim on any additional assets, because it is considered that no wealth is created. In contrast, in the case of productive projects, when funds are combined with creative labor, the lender has a claim on a portion of the created wealth or has an obligation to bear a portion of the loss suffered by the project (Lewis, 2001, p. 117). The prohibition of *riba* has implications for interest-related concepts such as the time-value of money and fair value measurement in Anglo-American accounting (Hamid et al., 1993). The time value of money, which is an important concept in IFRS, aims to allow users to evaluate the "ability of the entity to generate cash and cash equivalents in the future" often require the use of discounted future cash flows to measure assets and liabilities (ACCA, 2010; IASB, 2010). In relation to the application of fair value measurement, when active markets do not exist, the IFRS require the use of valuation methods that largely involve the calculation of net present value of future cash flows discounted at an appropriate rate of interest (ACCA, 2010).

The Islamic financial institutions (IFIs) were established to offer methods of financing that are in compliance with *Sharia* principles such as justice (*adl*) and contractual certainty to eliminate ambiguity (*gharar*) (Beekun & Badawi, 2005; Kamla, 2009; Williams & Zinkin, 2010). Based on a unique feature of profit-and-loss sharing (PLS) paradigm, the assets and liabilities of Islamic banks are integrated in the sense that borrowers share profits and losses with the banks, which in turn share profits and losses with the depositors (Chong & Liu, 2009). These banks offer various Islamic financial products which consist of *mudaraba* (profit sharing), *musharaka* (profit and loss sharing), *murabaha* (trade with mark up or cost-plus sale), *salam* (advance purchase), *istisna* (purchase order), and *ijara* (lease financing).

Importantly, it is suggested that the primary objective of accounting in Islam is accountability for payment of *zakat* (Adnan & Gaffikin, 1997). This has implications for Islamic acceptance in respect of a number of Anglo-American accounting values, principles and practices. For example, given the importance of *zakat*, it is suggested that

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exceed a certain initial amount (*nisab*) (Lewis, 2001, p. 118). It is the Islamic belief that zakat aims to purify wealth and soul, and thus distinguish it from the conventional notion of tax (Baydoun & Willett, 2000).

the cash basis for revenue and income recognition is more suitable for Islam than the accrual basis (Lewis, 2001). The use of accrual basis for recognizing revenues and expenses in terms of amounts expected to be received in the future would seem to create difficulties for Islamic institutions such as IFIs. Assigning revenues to the fiscal year in which it was earned rather than to that in which it was received would have two implications. First, in term of payment of *zakat*, the institution may pay *zakat* for wealth not yet received[4]. Second, the *mudaraba* principle underlying investment accounts involves distribution of cash profit and requires profit distribution to be treated like a refund of capital. Based on the accrual basis, the distribution of profit would require Islamic banks to advance cash from other sources before the liquidation of accounts receivables is made. Or, in case of loss, the bank would have to use its own funds to recompense the depositor, except that that violates another condition of a *mudaraba* contract that dictates that the loss should be born by the owners of the capital (Lewis, 2001).

The inconsistency between Islamic purpose and the accrual basis has implications for a number of related concepts such as conservatism, matching and objectivity. Conservatism is defined as using the lowest values of assets and the highest values of expenses, or reporting expenses sooner than later and recognizing revenues later than sooner. By contrast, the matching concept is defined as recognizing expenses in the same period as associated revenues. It is noted that the application of conservatism is not only subject to improper interpretation but also contradicts the objective of disclosing all relevant information of a particular entity such that it is most likely to result in distorted information which is inconsistent with *Sharia* requirements (Mirza & Baydoun, 2010). Moreover, the matching concept is irrelevant for Islamic purposes because of its emphasis on the revenue-expense approach rather than the asset-liability approach. Moreover, the qualitative characteristic of objectivity in accounting is also said to be irrelevant because of its focus on facilitating economic decision making of users for their own interests instead of the main concern, that of paying *zakat* (Adnan & Gaffikin, 1997).

Islamic researchers have also raised concerns in respect to the use of the going concern assumption in Anglo-American accounting. This assumption asserts that a business will continue to exist in the foreseeable future with implications for valuing the assets at the

[4] In Islam, loans including unearned revenues from them are exempt from *zakat* (Lewis, 2001).

historical cost in the balance sheet, such that the benefits of the assets will accrue for the foreseeable future. Opponents challenge this assumption based on the Islamic belief that only God will continue to exist indefinitely and it is unlawful (*haram*) to assume that something other than God could share this characteristic (Adnan & Gaffikin, 1997). Moreover, it is noted that going concern is not recognized in the Islamic model of *mudaraba* which is demonstrated by the use of liquidation and exit value for asset valuation and income determination for the *mudaraba* contract, clearly not the going-concern assumption (Abdel-Magid, 1981). On the other hand, the proponents defend the going concern concept based on the Islamic principle of "retaining" or "accompaniment" (*istishab*) which entails retaining any event or verdict experienced in the past, until evidence is found which says that the event or verdict has changed (Ahmed, 1994). Hence, if a person is known to exist, his existence is not denied until evidence to the contrary is produced (Ahmed, 1994).

Moreover, Islamic researchers also show the inconsistency between *Sharia* and the concept of presentation of the "true and fair view." "True and fair view" is commonly described as showing a "true and fair view" of, or as presenting fairly, the financial position, performance and changes in financial position of an entity. It is explained that, although Islam is also very much concerned with the fair presentation of rights and obligations, Islam requires a more holistic the "true and fair view" of an entity which includes both financial and non-financial areas (Rahman, 2010).

Similarly, the concept "substance over form" is not particularly endorsed and of limited use in Islamic accounting. It is explained that Islam emphasizes substance as well as form whereby a contract for a transaction must reflect its reality (Karim, 2001).

The materiality concept is also claimed to be inconsistent with *Sharia*. This concept asserts that adequate disclosure requires that a financial statement should contain all material information necessary to make it useful to its users, whether it is included in the financial statement, the notes accompanying them, or in additional presentations. In contrast to the emphasis of users, Islam emphasizes commercial morality which is related to understandable information which does not deceive users nor decrease understanding in such a way as to be misleading. Thus, Islam requires that a financial statement should disclose all information that is relevant to *Sharia* since Islam requires disclosure of all necessary information for the accomplishment of a faithful obligation and the making of an economic decision (Lewis 2001).

In relation to financial reports, it is suggested that the main reports in Anglo-American accounting such as income statement, balance sheet, cash flow statement, and other subsequent or extraordinary events information which mainly serve the interest of investors could continue to be applied because investors and other financial providers are also members of society with their own rights to information (Hamid et al., 1993). Therefore, the calculation of profits is important for various interested parties to get their just and fair share. However, it is important to note that those reports are not sufficient for Islamic accounting which emphasizes accountability to God and to mankind (Kamla et al., 2006; Kamla & Rammal, 2013). Additional information that needs to be disclosed to serve Islamic socio-economic objectives include true figures of *zakat* payable, the extent to which justice and benevolence are considered in the organization, treatment of the employees, the impact of the business on its environment, and adherence to the Islamic code of ethics (Baydoun & Willett, 2000; Gambling & Karim, 1986; Gambling & Karim, 1991; Kamla, 2009; Kamla et al., 2006; Kamla & Rammal, 2013; Lewis, 2001; Mirza & Baydoun, 2010). Thus, it is clear that various types of information are required in an integrated manner in accounting reports for Islamic purposes.

Moreover, the concept of Caliph may provide insights into the tendency for centralistic leadership in Islam. As the Islamic ruler, the Caliph is technically the manager of Islamic society. It has been demanded in the Quran that the Caliph (and all surrogates of Islamic authority) should be obeyed by Islamic followers. This effectively places all followers on an equivalent footing in relation to the administration of their daily affairs and access to the legitimate authority (Askary, 2004, p. 9).

This current paper suggests that the application of a codified and more rigid *Sharia* at present time provides insights into Islamic followers' familiarity and preference for a rule-based approach in applying standards and guidelines in their in their personal and professional activities. Indeed, it is commonly acknowledged that Islam is not only a religion, but a way of life with holistic detailed prescriptions on most activities in life (Hamid et al., 1993). This paper suggests that the preference for the more legalistic or rules-based approach also applies to professional accountants in Islamic countries such as Indonesia.

*3.2.3.2. Javanese values (*adat*)*

Nearly in all areas in Indonesia, Islam largely interacted with indigenous beliefs to develop a syncretic religion, with purity being concentrated in the coastal area (Geertz, 1960). Therefore, it is also important to take into account the influence of indigenous values (*adat*) in order to gain a rich understanding of accounting judgments with respect of preference in Indonesian context. Literature has shown that Javanese *adat* provide insights into various business and organizational practices in Indonesia. Indeed, although Indonesia comprises over 300 ethnic groups, the Javanese account for half of the population and have dominated social, political and business activities since the colonial era (Central Inteligence Agency, 2014; Liddle, 1996; Magnis-Suseno, 1997; Peacock, 1973). Moreover, while most of Javanese are Islamic followers, anthropological literature show the Islamic faith of the majority Javanese is a syncretic kind of Islam with strong indigenous influences (Geertz, 1960; Peacock, 1973).

Due to a long Hindu influence, the Javanese society put emphasis on hierarchy and social status, similar to the concept of caste. This emphasis is evidenced in the social segregation by classes, whereby the Javanese of the lower classes, the village and the market, model their lifestyles after the highest class *priyayi* (Geertz, 1961). However, it is suggested, that the hierarchical emphasis is more obvious among the elite *priyayi* (Geertz, 1960).

Consistent with its focus on hierarchy, Javanese *adat* is widely recognized to have a complex code of etiquette and respect. Moreover, conflict avoidance is emphasizes in social relationships based on two fundamental principles, "harmony within hierarchy" (*rukun*) and respect (*hormat*) (Chariri, 2008, p. 2). The Javanese emphasis on hierarchy and respect is evidenced in the Javanese language. Indeed, the Javanese speech level system is perhaps the most elaborate of its kind. The Javanese language requires a speaker to choose a speech code in relation to the relative status and/or familiarity of the other party. While the Javanese claims the practice as polite, it is suggested that their politeness actually often serves a political end (Smith-Hefner, 1988, p. 537). The Javanese speech levels may be divided into two major distinctions (Geertz, 1960, p. 2249). The first form is *ngoko,* the most basic and familiar level, which is learned by the child from peers and siblings and used throughout life to communicate with individuals who are close, younger or in a lower social status. The second form is *kromo* which is used with individuals who are in higher social status, older or unfamiliar. Unlike *ngoko*, *kromo* is mastered through learning process, often including explicit instructions from parents and teachers. *Kromo* variants are slightly longer than their *ngoko* counterparts and should be delivered in a slower, more refined and careful manner (Smith-Hefner, 1988).

Given its emphasis on "harmony within hierarchy," the Javanese *adat* prefers collectivism and social relation (*relasi*) rather than individualism. It is believed that individualism, diversity and conflict challenge social harmony (Mulder, 1994). Therefore, the Javanese *adat* show clear preference for collective instead of independent decision making and activities. It is a Javanese philosophy to "develop networks of acquaintance: workmates, customers, relatives, friends, neighbors, and colleagues" (Yudianti et al., 1997, p. 104). Indeed, the philosophies for both social and business activities are *gotong-royong* (mutual assistance) and *musyawarah* (unanimous decision). *Gotong royong* prescribes that individuals must help each other; while *musyawarah* prescribes that all decisions should be made only after an agreement or compromise has emerged (Magnis-Suseno, 1997).

The Javanese *adat* of respect (*hormat*) emphasize proper behavior to individuals with higher social status, and thus provides insights into prevalent practices of paternalism (*Bapakism*) and centralization of power in Indonesia. Indeed, prior research show that the major influence of Javanese *adat* on Indonesian organizational practices is the centralization of authority, decision making power largely concentrated to a single individual, (Rademarkers, 1998; Tsamenyi et al., 2008). The political literature shows the strong influence of Javanese *adat* of centralistic leadership on two Indonesian earliest presidents, Soekarno and Soeharto, which can be traced back to the traditional Javanese kings practices (Mulder, 1994). During their rulings, the two presidents promote the Javanese *priyayi* rules and traditions, and thus reinforced Javanese *adat*'s domination throughout contemporary Indonesia. Importantly, the Javanese hegemony reached its momentum during the Soeharto's New Order Era from 1966 to 1998. It is explained that, "government propaganda and moral education activities are so distinctly Javanese as to warrant the idea in the contemporary Indonesia that a new moralizing quasi-regal tradition has been established" (Mulder, 1994, p. 44). In this era, Indonesia experienced "Javanization" which indicates how Javanese philosophies and practices encompass Indonesian political and daily lives (Tsamenyi et al., 2008). Indeed, in the Soeharto era, a "'Javanese Indonesian' culture is emerging, one that represents the *priyayi* (highest class) cultural values that give priority to order, hierarchy, harmony and unity" (Mulder, 1994, p. 44).

Given the Javanese emphasis of collectivism, *Bapakism* and centralistic decision making are in conflict with the Anglo-American notion of autonomy and independent professional judgments, this current paper suggests that Indonesians are largely prefer for the rules-based rather than principles-and approach in interpreting and applying standards and guidelines. Indeed, a business organization, for example, the Chief Executive Officer (CEO) is usually perceived by other organizational members as a father (*Bapak*) figure, thus the CEO makes all important decisions and all members have to obey the decisions (Mulder, 1983). Empirical evidence has provided support for the powerful Javanese *adat* of *Bapakism*, "harmony within hierarchy" (*rukun*), respect (*hormat*), relations (*relasi*), compromise to avoid conflict, and preference for an indirect approach (*ewuh pekewuh*) in organizational and accounting practices in Indonesia (Chariri, 2008; Efferin & Hopper, 2007; Rademakers, 1998; Tsamenyi et al., 2008; Wahyudi, 2009).

3.2.3.3. Accounting development in Indonesia

This section discusses the Indonesian accounting development and its relationships with accounting practices in the country. The discussion starts with the Dutch influence in the colonization era, the US accounting model and followed by harmonization and convergence movement in Indonesia.

The Dutch colonial ruler introduced double-entry bookkeeping to Indonesia through the operation of United East Indies Company (Siddik & Jensen, 1980). The Dutch held monopoly right over Indonesian commercial sector, and thus strongly influenced Indonesian business environment (Siddik & Jensen, 1980). During this era, most indigenous Indonesians had very limited opportunity to involve in commercial sector including accounting. The Dutch brought a large number of Chinese to fill for the required personnel in controlling commercial activities in the archipelago (Liang, 1998). The Chinese were granted with special rights to retail trade, coastal traffic, and, later, monopolies to most of the tax gathering (Siddik & Jensen, 1980, p. 72). The growth of mercantilism in 1870s marked a shift towards entrepreneurship whereby the Dutch introduced private foreign investment in Indonesia. This shift reinforced the advantageous position of the Chinese Indonesians in the economy while the indigenous Indonesians involved mainly as unskilled labors (Liang, 1998). The entry of foreign investment brought along new accounting methods and practices to Indonesia and they largely remained after Indonesian independence with minimal changes. This period was characterized by a strong Dutch influence where accounting mainly focused on general and business economics (Liang, 1998).

The Dutch influence was evidenced in Indonesian tax law which mostly was based on the Dutch tax law in the 1930s (Siddik & Jensen, 1980). The 1950s' Indonesian company law was also largely based on the Dutch law, and it has not kept up with later amendments in the Dutch Commercial Code (Liang, 1998). As the consequence, many amendments, supplements, and changes made in the Dutch, in particular those in respect of the limited liability company from 1928 onwards, had never been incorporated into the Indonesian Commercial Code (Liang, 1998). The Commercial Code requires businesses in Indonesia to maintain financial records in such a manner that its rights and obligations may be determined at any time, although no requirement were issued with regard to a specific book-keeping system. No requirements existed for an exhaustive and thorough system, thus the book-keeping system was largely based on the business needs (Liang, 1998). A small business can set up a simple set of book keeping system, while large business were required to set up a more complete and detailed system. In addition, business is required to prepare a balance sheet signed by the business owner within six months of the end of the financial year. However, no statutory requirement existed to register financial statements in Indonesia and the Commercial Code contained no further details about the balance sheet (Liang, 1998). It is therefore left to the business need and general practice to decide the format of the balance sheet. Despite the existence of statutory requirements regarding book keeping and preparation of financial statements, only few small businesses in Indonesia complied with them with largely no consequence (Liang, 1998).

The period after Indonesian independence, marked a shift towards a market economy and Anglo-American accounting model especially the US rules-based accounting systems in Indonesia. The promotion of the US accounting model in Indonesia was particularly related to aids provided by the US and the United Nations (UN) following nationalization of Dutch corporations and eviction of Dutch people in 1958. The eviction caused in a shortage of lecturers since most of the Dutch worked as academics at Indonesian universities. To help alleviating the problem, the US academics were brought to Indonesian universities and the UN supported training programs for personnel in all government departments and in most of the large universities (Liang, 1998). During this period, the US accounting model and practices were transferred to Indonesia through multinational companies, international accounting firms, and textbooks which replaced the translated Dutch texts in universities (Yunus, 1990). In 1973, the first codified Indonesian Accounting Principles (*Prinsip Akuntansi Indonesia*—PAI) was issued by the Indonesian Accounting Association (*Ikatan Akuntan Indonesian*–IAI). They were mostly based on the 1965's US generally accepted accounting principles (GAAP), thus indicated the influence of US rules-based approach in Indonesian accounting (Abdoelkadir, 1982; Saudagaran & Diga, 2000; Siddik & Jensen, 1980, p. 74).

In the early 1990s, the accounting harmonization with the adoption of International Accounting Standards (IAS) into Indonesian financial accounting standards was initiated in Indonesia due to reform initiatives after a banking crisis. The reforms primarily focused on gaining investor confidence for developing capital markets in Indonesia which resulted with a considerable growth of companies listed on the Jakarta Stock Exchange[5] (JSX) from 24 to more than 200 companies (Asian Development Bank, 2003; Rosser, 1999). During this period, with the assistance from the World Bank, Indonesia also ran the 2nd Accountancy Development Project with an objective to enhance accounting regulation and to increase the competency of accountants in Indonesia (Rosser 1999). Importantly, the Indonesian Institute of Accountants showed a formal support for the harmonization program initiated by the International Accounting Standards Committee (IASC, the predecessors of IASB) (Rosser 1999, ADB 2003). This was evidenced by the adoption of the framework for the preparation and presentation of financial statements of IASC in 2004. The Indonesian Accounting Association also published a new set Statement of Financial Accounting Standards (SFAS, *Pernyataan Standar Akuntansi Keuangan*—PSAK) that were adapted, among others, from IAS.

It was after the economic crisis of 1997–1998 that the external pressures to join the global convergence and adopt the principles-based standards dominated Indonesia. Using the rationales of improving transparency and promoting corporate governance reform, the OECD, the World Bank, and the Asian Development Bank (ADB) introduced a range of initiatives including the adoption of global accounting standards to Indonesia. Concurrently, the IMF also put pressures to Indonesia by making the adoption of corporate governance reforms a condition of its financial aids (Rosser, 2003).

[5] Stock markets in Indonesia, namely Jakarta Stock Exchange and Surabaya Stock Exchange, merged into Indonesian Stock Exchange (IDX) on 2007.

The Indonesian government was forced to agree to external pressures (*tekanan dari luar*) in the form of extensive reform demands from the IMF in the exchange for its financial aid (Graham & Neu, 2003; Hadiz & Robison, 2005; Hill & Shiraishi, 2007). The recommended reforms included more deregulation, reducing the number of state owned companies, introducing institutional reforms in the financial sector, fiscal restraint, trade liberalization, and increased industrial competition, dismantling Indonesian central government authority and the revision of financial system regulations to incorporate international best practices (Graham & Neu, 2003; Hadiz & Robison, 2005). Based on the international agencies' suggestions, the Indonesian government enacted a number of rules and regulations in order to improve transparency and quality of financial information in the country[6]. The pressures for convergence was clearly shown in the World Bank and the IMF joint report on The Observance of Standards and Codes (ROSC) in Indonesia (World Bank, 2005). The report clearly mentioned that it consulted International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) in reviewing strengths and weaknesses of accounting and auditing environment that influence the quality of financial reporting in Indonesia. In its recommendation, the report explicitly advocated Indonesia to endeavor full convergence with the IFRS and ISA (World Bank, 2005, p. 22). The World Bank and the IMF reinforces their demands in their subsequent report by strongly demanded measures to achieve full convergence in Indonesia by stating that "the government of Indonesia needs to take steps for full IFRS convergence since the convergence is too important to be left to a private sector organization like IAI [Indonesian Institute of Accountant], which failed to meet the IFRS convergence target a few times in the past" (World Bank, 2010, p. 26). Consistent with the pressures, the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia*—IAI) converted the basis of Indonesian accounting standards setting from the US GAAP to the International Accounting Standards (IAS, the predecessor of IFRS). In 2008, Indonesia officially announced the start of convergence movement using gradual transition approach (Indonesian Institute of Accountants, 2009; Indonesian Institute of Certified Public

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[6] For example, Indonesia's Bankruptcy Law was substantially amended in 2004 to raise confidence of creditors that they could recover debts through the judicial system (Republic of Indonesia, 2004). Moreover, Law No. 40 of 2007 replaced Law No. 1 of 1995 on Limited Liability Companies (Republic of Indonesia, 2007). One major change is the new Law places the General Meeting of Shareholders (GMS) at the same level as the Board of Director (BOD) and Board of Commissioners (BOC). Further, the Ministry of Finance issued a Decree No. 359/KMK.06/2003 on Public Accountants Service (Ministry of Finance, 2003). This decree includes mandates in respect to auditor rotation, a 3 years' rotation for audit partners and a 5 years' rotation for accounting firms.

Accountans, 2012). At present, convergence in Indonesia is evidenced with the full adoption of the Code, IFRS, and ISA in 2010, 2012 and 2013, respectively.

However, despite the adoption of Anglo-American accounting model and practices, it is important to note that there are inconsistencies between relevant Indonesian contextual factors with those of Anglo-American countries. The contextual differences have largely hindered the proper applications of the Anglo-American accounting values and principles, which emphasize on independent accounting profession, arm's length transactions, increasing disclosure, the use of accountants' professional judgments and "substance over form" approach. For example, in relation to the independence of accounting profession in Indonesia, Hutagaol et al., (2000) provide evidence with respect to the excessive government influence in accounting development and standard setting in Indonesia. This influence was realised through the relationship between Development and Financial Supervisory Agency (*Badan Pengawas Keuangan Negara*—BPKP) and the Indonesian Institute of Accountants and large accounting firms in Indonesia. Moreover, in contrast to the importance of private companies and capital market in Anglo-American countries, Indonesian business environment in dominated by 141 State-Owned enterprises (SOEs). The SOEs' total assets and total revenues are around 40 percent and 20 percent of Indonesian gross domestic product (GDP), respectively (Ministry of SOEs, 2010), The SOEs accounted contributed 30 percent of the total market capitalization on the Indonesia Stock Exchange (IDX) (Ministry of SOEs, 2010). This shows that the primary use of financial reporting is for economic planning purposes by the government. FOBs also play an important role in the economy since FOBs dominate 80 percent of large companies and 67 percent of listed companies in Indonesia (Claessens et al., 2000; Samboh, 2011). Moreover, SMEs comprises 99 percent of businesses in Indonesia (World Bank, 2005).
Prior research has shown that the unique business environment of Indonesia has implications for issues such as "crony capitalism," related-party transactions, harmony within hierarchy, and secrecy of information. Astami et al.'s (2010) highlights the association between government ownership and firms' performance by comparing the performance of 43 partially-privatized SOEs and 114 full SOEs in Indonesia. The study finds that the average profit for full government-owned SOEs is lower than partially privatised SOEs (Astami et al. 2010). Moreover, The "relationship-based economic systems" in Indonesia is highlighted in Leuz and Oberholzer-Gee's (2006, p. 437) study which provides evidence that firms with strong political connections in Indonesia are less likely to have publicly traded securities abroad. The author explained that these firms have

an aversion to the transparency and scrutiny that come with publicly traded securities (Leuz and Oberholzer-Gee, 2006).

As such, the discussion of Indonesian accounting development provides insights into the continued emphasis of legalistic approach, *Bapakism* and centralistic decision making, "harmony within hierarchy" (*rukun*), relations (*relasi*) and "crony capitalism" in organizational and accounting practices in Indonesia, despite the adoption of Anglo-American accounting model and practices (Chariri, 2008; Efferin & Hopper, 2007; Rademakers, 1998; Tsamenyi et al., 2008; Wahyudi, 2009). Thus, it is suggested that professional accountants in Indonesia are more likely to have a preference for rules-based approach in interpreting and applying global accounting standards and guidelines.

3.2.5 Construal of Self

It is important to note that it is individual accountants who responsible to exercise professional judgments in interpreting and applying accounting standards (Kachelmeier, 2010). An aspect that is likely to influence individuals' judgments is personality variables, since "different people have different goals, sensitivities, and experiences," and thus "their judgments and biases can be expected to vary in systematic, adaptive, and theoretically interesting ways" (Cokely & Feltz, 2009, p. 23). Personality is defined as "the dynamic and organized set of characteristics possessed by a person that uniquely influences his or her cognitions, motivations, and behaviors in various situations" (Ryckman, 2007, p. 4). While local contextual factors such as culture have an impact on individuals and addresses how, in general, an individual should behave in a particular role or status in a given society, personality in contrast "speaks to differences in behaviors or responses by individuals in the same roles or statuses in a given society" (Harrison, 1993, p. 325). Therefore, it is important to take into account the influences of personality variables in research on accounting judgments with respect to preferences.

However, in spite of the its importance, personality variables has not been rigorously examined in international accounting research (Andon et al., 2010; Heidhues & Patel, 2012a, p. 162; Heinz et al., 2013; So & Smith, 2003; Taggar & Parkinson, 2007; Wheeler, 2001). By contrast, as noted previously, the majority of previous research has focused on the influence of national culture on accountants judgments, mostly relying on narrowly-focused classifications such as Hofstede's (1980) cultural dimensions and Gray's accounting values (Chand et al., 2011; Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004).

One of the important and relevant personality variables is Construal of Self (Heinz et al., 2013; Markus & Kitayama, 1991; Markus & Kitayama, 2010; Singelis & Sharkey, 1995, p. 624). Indeed, the psychological and anthropological literature clearly shows that there are important differences in defining the self among various cultures and distinguishes between independent and interdependent construal of self. The image of self, referred to as Construal of Self or Self-Construal, is defined as "a constellation of thoughts, feelings, and actions concerning the relationship of the self to others and the self as distinct from others" and distinguishes between independent and interdependent Construal of Self (Markus & Kitayama, 1991; Markus & Kitayama, 2010; Singelis & Sharkey, 1995, p. 624).

Individuals with independent Construal of Self mainly focus on autonomy and their individualistic characteristics, and are also labeled as "individualistic, egocentric, separate, autonomous, idiocentric, and self-contained" (Markus & Kitayama, 1991, p. 226). By contrast, individuals with interdependent Construal of Self focus largely on collectivistic, group-, and relationship-oriented characteristics (Markus & Kitayama, 1991; Markus & Kitayama, 2010). It is important to note that the independent and interdependent Construal of Self on the individual level is comparable to individualism and collectivism on the cultural level (Gudykunst et al., 1996; Lu & Gilmour, 2007; Singelis et al., 1999). As such, Construal of Self is more likely to provide rich insights into preferences and judgments on the individual level.

Individuals with independent Construal of Self try to distinguish themselves from others and consider themselves as unique individuals. In contrast, individuals with interdependent Construal of Self focus largely on collectivistic, group-, and relationship-oriented characteristics, and are also labeled as "sociocentric, holistic, collective, allocentric, ensembled, constitutive, contextualist, connected, and relational" (Markus & Kitayama, 1991, p. 227). Another difference between interdependent and independent Construal of Self is that individuals with interdependent Construal of Self are typically indirect ("read other's mind"), whereas individuals with independent Construal of Self are direct ("say what's on your mind") (Markus & Kitayama, 1991). Markus and Kitayama

(1991) further provide the summary of the major differences between an independent and interdependent construal of self as shown in Table 3.1 (Markus and Kitayama, 1991, p.230).

Table 3.1. Summary of Key Differences between an Independent and an Interdependent Construal of Self

No.	Feature compared	Independent	Interdependent
1.	Definition	Separate from social context	Connected with social context
2.	Structure	Bounded, unitary, stable	Flexible, variable
3.	Important features	Internal, private (abilities, thought, feelings)	External, public (statuses, roles, relationships)
4.	Tasks	Be unique Express self Realize internal attributes Promote own goal Be direct; "say what's on your mind"	Belong, fit in Occupy one's proper place Engage in appropriate action Promote others' goals Be indirect; "read other's mind"
5.	Role of others	Self evaluation: others important for social comparison, reflected appraisal	Self-definition: relationships with others in specific contexts define the self
6.	Basis of self-esteem	Ability to express self, validate internal attributes	Ability to adjust, restrain self, maintain harmony with social context.

It is important to note that, despite the focus on autonomy by individuals with independent Construal of Self, other individuals are still important for social comparison and self-evaluation. For example, individuals with independent Construal of Self consider themselves as a "little fish in a big pond" when comparing themselves to peers who perform well, resulting in experiencing negative self-evaluation. In contrast, if they compare themselves to peers who perform poorly, individuals with independent Construal of Self consider themselves as a "big fish in a little pond," thereby experiencing positive self-evaluation (Cheng & Lam, 2007). This is consistent with the notion that individuals with independent Construal of Self try to distinguish themselves from others and consider themselves as unique individuals.

By contrast, individuals with interdependent Construal of Self perceive themselves as closely connected to others, in particular to in-group members (Markus & Kitayama, 1991; Markus & Kitayama, 2010). The choice of in-group members is highly selective and depends on the sharing of a common fate. Examples of individuals with whom an individual with interdependent Construal of Self may share a common fate, and as such are in-group members, are family members, friends, and co-workers (Markus & Kitayama, 1991). The relationship with in-group members is of the highest importance, as individuals with interdependent Construal of Self largely define themselves with the group (Markus & Kitayama, 1991; Markus & Kitayama, 2010). Furthermore, individuals with interdependent Construal of Self continuously control and regulate their own opinions, abilities and characteristics in favor of group opinions and characteristics to ensure harmonious relationships. Indeed, personal opinions and characteristics play only secondary roles as compared to the primary task of interdependence (Markus & Kitayama, 1991; Markus & Kitayama, 2010).

Prior research in accounting has invoked Construal of Self in examining differences in judgments with respect of preferences. For example, Patel and Psaros (2000) has invoked Construal of Self in examining differences in perceptions of the external auditors' independence concept. The study found significant differences in perceptions of among final year undergraduate accounting students from the United Kingdom, Australia, India and Malaysia with respect to the important concept. However, the study used the Construal of Self to operationalize cultural differences between the four nations under examination without explicitly measured construal orientations of the participants. By contrast, this current paper overcome the limitation by measuring Construal of Self of each participant using the Self-Construal Scale from Singelis (1994).

This paper suggests that individuals with independent and interdependent Construal of Self differ in their preferences for principles versus rules based standards. Recall that individuals with independent Construal of Self are characterized by autonomy and separateness, as such individuals with independent Construal of Self are more likely to demonstrate a preference for a principles-based approach since they are more likely to be more confident in exercising independent professional judgments as required by the global accounting standards. In contrast, professional accountants with a stronger interdependent Construal of Self are more likely to demonstrate a preference for a rules-based approach because they are more likely to be less confident in exercising independent professional judgments required by the global accounting standards.

3.3. Research Methods

As previously mentioned, this paper examines professional accountants' preferences in applying accounting standards and takes both quantitative and qualitative research approaches. The next sub-sections provide details of the respective research approaches used in this paper.

3.3.1. Quantitative Research Approach

The first objective of this paper is to examine professional accountants' preferences in applying accounting standards in Indonesia by using the hypothetico-deductive paradigm of quantitative research. Based on previous discussions on relevant contextual factors of Indonesia, this paper formulates hypotheses as follows.

H_{1a}: Professional accountants in Indonesia are more likely to demonstrate a greater preference for rules-based standards than principles-based ones.

H_{1b}: Professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for rules-based standards.

Data for the hypothetico-deductive framework were collected using a survey questionnaire. The questionnaires were administered to professional accountants working in Big Four accounting firms in Indonesia. The participants were required to have at least one year's working experience to ensure equivalence in the sample. This was also to allow better control of other influences beside those variables examined in this study. Senior members of accounting firms in Indonesia were contacted via email requesting their assistance in distributing the survey questionnaires to their colleagues. The email explained details of the survey such as the purpose of the study, explained the anonymity of the survey questionnaires, confidentiality of data, and gave a sample of the questionnaire itself. Senior members from two big four accounting firms agreed to distribute the questionnaires and provided assurance that they would encourage their colleagues to complete them and return them promptly. The number of questionnaires given to the contact persons was based on their estimates of suitable respondents in their respective divisions. To allow for standardized distribution, contact persons were requested to distribute the questionnaires to eligible respondents. Contact persons were also requested to distribute the questionnaire to both male and female professional accountants.

3.3.1.1. *Research instrument*

The research instrument used for the purpose of this paper was modified from Agoglia et al. (2009). The use of an instrument that has been tested for its readability and validity was consistent with the suggestion that the use of previously tested scenarios enhances the scope, depth, validity, and credibility of the research (Patel 2006, p. 98). The questionnaire consisted of three sections and included a preliminary explanation regarding the differences between principles-based versus rules-based standards.

Section 1 comprised five questions eliciting participants' preferences in the application of accounting standards in Indonesia. Question 1 elicited participants' preferences in general by asking: "Considering the Indonesian people's background such as historical, social, political, and cultural background, in your opinion, which type of standard is most suitable to be applied in Indonesia?" The participants' preferences were measured using a 9-point Likert scale, where 1 indicates preference for rules-based standards and 9 indicates preference for principles-based standards.

Questions 2 to 5 contained uncertainty expressions, namely, major part, substantially, significant influence, and control. These uncertainty expressions were selected from three IFRS-based Statement of Financial Accounting Standards in Indonesia, namely, accounting for Leases, Investment in Associates and Business Combination. Standard for Leases was selected because it remains an important and controversial standard and there has been a long standing debate regarding the use of uncertainty expressions such as "major part" and "substantially" in the standard. Moreover, "significant influence" was selected because it is related to Investment in Associate and "control" is the most important criterion in consolidation reporting. These two uncertainty expressions are important to provide insights into group accounting.

Specifically, Question 2 asked about participants' preferences with regard to the uncertainty expression "major part" used in IAS 17 on Leases (IASB, 2003a) which was adopted as Indonesian Statement of Financial Accounting Standards No. 30. The question asked: "Which approach do you prefer to be applied in the financial accounting standard for Leases: The lease term is for the "major part" (versus: "75% or more") of the economic life of the asset at the inception of the lease?" The participants were asked to indicate their preferences using a 9-point Likert scale, where 1 indicates preference for the less precise criteria "major part" and 9 indicates preference for the bright-line criteria "75% or more."

Question 3 asked about participants' preferences with regard to the uncertainty expression "substantially" which also used in IAS 17 (IASB, 2003a) and Indonesian Statement of Financial Accounting Standards No. 30 on Leases. The question asked: "Which approach do you prefer to be applied in the financial accounting standard for Leases: At the inception of the lease, the present value of the minimum lease payments amounts to at least 'substantially' (versus: '90% or more') all of the fair value of the leased asset?" A 9-point Likert scale was used to measure the preferences, where 1 indicates preference for "substantially" and 9 indicates preference for "90% or more."

Question 4 asked about participants' preferences with regard to the uncertainty expression "significant influence" used in IAS 28 on Investment in Associates (IASB, 2003b) which was adopted as Indonesian Statement of Financial Accounting Standards No. 15. The question asked: "Which approach do you prefer to be applied in the financial accounting standard for Investment in Associates: The Standard clarifies that investments in associates over which the investor has "significant influence" (versus: holds, directly or indirectly, '20% or more' of the voting power of the investee) must be accounted for using the equity method?" The participants' preferences were measured using a 9-point Likert scale, where 1 indicates preference for "significant influence" and 9 indicates preference for "20% or more."

Question 5 asked about participants' preferences with regard to the uncertainty expression "control" used in IFRS 3 on Business Combination (IASB, 2008) which was adopted as Indonesian Statement of Financial Accounting Standards No. 22. The question asked: "Which approach do you prefer to be applied in the financial accounting standard for Business Combinations: A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains "control" (versus: obtains '50 per cent or more' of the voting power) of the other business (the acquiree)? The participants were asked to indicate their preferences using a 9-point Likert scale, where 1 indicates preference for "control" and 9 indicates preference for "50 per cent or more." The questionnaire also provided writing spaces under each question to encourage participants to give explanations for their preferences for Questions 1 to 5.

Section 2 of the questionnaire consists of questions with respect to the Self-Construal scale. To categorize professional accountants as having either independent or interdependent Construal of Self, participants were requested to complete the Self-Construal Scale from Singelis (1994) using a 5-point Likert scale. The Self-Construal Scale comprises twenty-four items, with twelve items each representing independent and interdependent Construal of Self. The items measure "the constellation of thoughts, feelings, and actions composing independent and interdependent self-construals" (Singelis, 1994, p. 584). The Self-Construal Scale has been extensively used in previous research and has been shown to be an important instrument in measuring self-construal (Brockner et al., 2005; Downie et al., 2006; Hamilton & Biehal, 2005; Hardin et al., 2004; Hsu, 2002; Milyavskaya et al., 2010; Neumann et al., 2009; van Horen et al., 2008). Prior research suggests that the Self-Construal Scale is "the most widely used measure in the literature of Self-Construals" (Lu & Gilmour, 2007, p. 250). Finally, Section 3 of the questionnaire required participants to provide their demographic data such as gender, age, and professional experience.

3.3.1.2. Questionnaire design

The questionnaire was developed and tested in a number of steps. The questionnaire was first developed in English. The English version was administered to four accounting academics and professional accountants. After incorporating feedback from this step, the questionnaire was then translated into Indonesian by the researcher who is fluent both in English and Indonesian. To ensure consistency of meaning with the original questionnaire, the translated version was then back-translated by an accounting academic with professional accounting experience, who was also fluent in English and Indonesian. The result of the back-translation indicated that the Indonesian version was consistent with the original scenario.

To enhance readability and understandability, the Indonesian version of the questionnaire was administered to five Indonesian professional accountants and accounting academics with a request to complete the questionnaires and to provide suggestions regarding their understandability. Based on discussions with two of the professional accountants, the questionnaire was further improved for readability and understandability. After incorporating the suggestions and comments, the author again conducted a thorough examination of the questionnaire. Finally, the questionnaire was also pretested to twenty accounting students in Indonesia especially for ensuring consistency between different language versions of the questionnaires.

3.3.2. Qualitative Research Approach

Accounting is a social construct that is molded by the society in which it operates (Hopwood, 2000). Likewise, convergence is socially and experientially constructed because it is largely related to human interactions and considered as social and institutional practices (Hopwood, 2000). Therefore, this paper suggests that the use of a qualitative research approach provides a richer and deeper understanding of professional accountants' preferences in Indonesia, rather than sole reliance on the quantitative approach.

Consistent with the view, and in order to gain rich insights into the preferences of Indonesian professional accountants, this paper also used materials from twenty-four semi-structured interviews which were conducted for a larger research project on convergence. The interviews were conducted with eight senior accounting academics and sixteen senior professional accountants in Indonesia during January-February and May 2013. Moreover, four of the twenty-four interviewees were actively engaged in the standard setting and convergence processes through their respective positions in the Financial Accounting Standards Board, Public Accountants Professional Standards Board, and Public Accountants Supervisory Board.

Interviews were carried out by the researcher is fluent in Indonesian and English. The interviews were recorded, with the agreement from the interviewees, and transcribed to avoid inaccuracies because of poor recall (Yin, 2003). All interviews were based on a semi-structured interview guide consisting of broad open-ended questions eliciting the interviewees' personal understanding of the promotion of principles-based standards and accountants' professional judgments in Indonesia. It is important to note that the list of questions only served as a guide in the interview while the richness of data was gathered from follow-up questions where the interviewees were given the opportunity to talk openly about their views and concerns on convergence in Indonesia. Thus, it was important to establish a friendly atmosphere and a strong relationship with interviewees to make interviewees comfortable and relax to talk openly about their views and concerns.

3.4. Results and Discussion

3.4.1. Results of The Quantitative Approach

3.4.1.1. Accountants' preferences for the application of accounting standards

A total of 72 professional accountants working in Big Four accounting firms in Indonesia provided their responses to 120 questionnaires distributed. Among these returned questionnaires, one response was excluded from further analysis due to incompleteness. In the end, 71 responses were included in the analysis and hypothesis testing in this study, a response rate of 59 percent. Demographic details of participants are presented in Table 3.2. Among the 71 participants, 46 percent were males with an average age of 25 years old and the remaining female participants (53 percent) were an average of 26 years old. The higher ranks of professional accountants (managers and partners) comprised 36 percent of male participants while the lower ranks (junior level) comprised 18 percent of them. In contrast, the lower rank of professional accountants comprised 42 percent of female participants while the higher ranks comprised 11 percent of them. The gender discrepancy in Big Four accounting firms shown in this paper is a general reflection of most organizations in Indonesia.

Table 3.2. Demographic Data: Gender, Age, and Professional Experience

Gender	n (%)	Age (s.d)	Experience			Ranks	
			Mean (s.d)	Categories	n		
Male	33 (46.5%)	25.11 (4.36)	3.09 (3.40)	<3	9	Junior	6
				3-5	11	Senior	15
				≥6	13	Manager	9
						Partner	3
Female	38 (53.5%)	26.27 (2.60)	4.06 (1.89)	<3	23	Junior	16
				3-5	11	Senior	18
				≥6	4	Manager	4
						Partner	0
Average		26.27	4.06				
Total	**71**						

Based on survey questionnaires administered to professional accountants in Indonesia, this paper analyzes preferences in applying accounting standards to test H_{1a}. Preliminary statistics were conducted to examine whether gender influences the participants' preferences in applying accounting standards. As the results were not statistically significant, the responses were aggregated in each group for hypothesis testing.

Recall that the main part of the questionnaire comprised 5 questions eliciting professional accountants' responses regarding their preferences. Question 1 was as follows.

> Considering the Indonesian people's background such as historical, social, political, and cultural background, in your opinion, which type of standards is most suitable to be applied in Indonesia?

The participants were asked to show their preferences by selecting a score on a 9-point Likert scale, where 1 indicates preference for rules-based standards and 9 indicates preference for principles-based standards. Table 3.3 presents descriptive statistics and statistical results from the responses. Table 3.3 Panel 1 shows that a lower proportion of participants, at 32.4 %, responded by choosing scores 1 to 4 which indicate a preference for principles-based standards, in contrast to H_{1a}. H_{1a} is tested using a one-sample t-test and non-parametric Wilcoxon signed-rank test. H_{1a} is supported if the mean of the participants' preferences for Question 1 is significantly lower than the mid-point 5. Results show that the mean of the participants' preferences is 5.52, which is in contrast to the direction of H_{1a}. The results of the statistical analysis demonstrate a significant preference for principles-based standards instead of rules-based standards, where mean responses 5.52 is significantly higher than the mid-point 5 (t-test p=0.048, Wilcoxon p=0.045). Thus, the results for Question 1 do not support H_{1a} (See Table 3.3 Panel 1).

As noted earlier, Questions 2 to 5 elicited responses with regard to four uncertainty expressions selected from three IFRS-based Statement of Financial Accounting Standards in Indonesia. A 9-point Likert scale was also used to measure responses for each question, with a reverse order, where 1 indicates preference for the rules-based standards (bright-light criteria) and 9 indicates preference for principles-based standards (less precise criteria). For Questions 2 to 5, H_{1a} is supported if the mean preference is higher than the mid-point 5 using a one-sample t-test and one non-parametric Wilcoxon signed-rank test.

Question 2 asked for participants' preferences with regard to the uncertainty expression "major part" used in IAS 17 and Indonesian Statement of Financial Accounting Standards No. 30 on Leases. The questions asked as follows:

> Which approach do you prefer to be applied in the financial accounting standard for Leases: The lease term is for the "major part" (versus: "75% or more") of the economic life of the asset at the inception of the lease?

Table 3.3 Panel 2 shows that a higher proportion of participants, at 74.6 %, responded by choosing scores 6 to 9 which indicates a preference for rules-based standards. The mean of response for Question 2 is 6.42 and the results of the statistical analysis show that the mean of responses is significantly higher than the mid-point 5 (one-sample t-test p<0.005, Wilcoxon p<0.0005). Thus, the results for Question 2 show a significant preference for rules-based standards which supports H_{1a} (See Table 3.3 Panel 2).

Question 3 asked for participants' preferences with regard to the uncertainty expression "substantially" which is also used in IAS 17 and Indonesian Statement of Financial Accounting Standards No. 30. The question asked as follows:

> Which approach do you prefer to be applied in the financial accounting standard for Leases: At the inception of the lease, the present value of the minimum lease payments amounts to at least "substantially" (versus: "90% or more") all of the fair value of the leased asset?

Table 3.3 Panel 3 shows that a higher proportion of participants, at 67.5 %, responded by choosing scores 6 to 9 which indicates a preference for rules-based standards. The mean response for Question 3 is 6.18 and the results of the statistical analysis show that the mean response is significantly higher than the mid-point 5 (one-sample t-test p=0.0005, Wilcoxon p=0.001). Thus, the results for Question 3 show a significant preference for rules-based standards which supports H_{1a} (See Table 3.3 Panel 3).

Table 3.3. Results of Professional Accountants' Preferences

Panel 1: Rules-based vs. Principles-based standards	Scores	Freq	%
Prefer rules-based standards	1	4	5.6
	2	11	15.5
	3	3	4.2
	4	5	7.0
Subtotal		23	32.4
Mid- point	5	15	21.1
Prefer principles-based standards	6	2	2.8
	7	9	12.7
	8	11	15.5
	9	11	15.5
Subtotal		33	46.5
Total		71	100
One sample t-test: H_{1a}=mean < 5	Mean = 5.52 (s.d = 2.60) **p = 0.048**		
Wilcoxon test: H_{1a}=median < 5	Median = 5 **p = 0.045**		

Questions 2-5 on uncertainty expressions:		**Panel 2:** Major part		**Panel 3:** Substantially		**Panel 4:** Significant Influence		**Panel 5:** Control	
	Scores	Freq	%	Freq	%	Freq	%	Freq	%
Prefer principles-based standards	1	7	9.9	7	9.9	13	18.3	12	16.9
	2	5	7.0	5	7.0	9	12.7	12	16.9
	3	4	5.6	8	11.3	9	12.7	4	5.6
	4	0	0	2	2.8	3	4.2	1	1.4
Subtotal		16	22.5	22	31.0	34	47.9	29	40.9
Mid-point	5	2	2.8	1	1.4	2	2.8	1	1.4
Prefer rules-based standards	6	3	4.2	1	1.4	1	1.4	1	1.4
	7	17	23.9	14	19.7	13	18.3	21	29.6
	8	15	21.1	16	22.5	10	14.1	6	8.5
	9	18	25.4	17	23.9	11	15.5	13	18.3
Subtotal		53	74.6	48	67.5	35	49.3	41	57.8
Total		71	100	71	100	71	100	71	100
Mean (s.d)		6.45 (2.72)		6.18 (2.84)		5.01 (3.04)		5.24 (3.07)	
One sample t-test H_{1a}: mean > 5		**p < 0.005****		**p = 0.0005****		**p = 0.49**		**p = 0.22**	
Wilcoxon test H_{1a}: median > 5		Median = 7 **p < 0.0005****		Median = 7 **p = 0.001****		Median = 5 **p = 0.48**		Median = 7 **p = 0.39**	

Note: *significant at the 0.05 level, **significant at the 0.01 level (one-tailed).

Question 4 asked for participants' preferences with regard to the uncertainty expression "significant influence" used in IAS 28 on Investment in Associates which was adopted as Indonesian Statement of Financial Accounting Standards No. 15. The question asked as follows:

> Which approach do you prefer to be applied in the financial accounting standard for Investment in Associates: The Standard clarifies that investments in associates over which the investor has "significant influence" (versus: holds, directly or indirectly, "20% or more" of the voting power of the investee) must be accounted for using the equity method?"

Table 3.3 Panel 4 shows that only half of participants, at 49.3 %, responded by choosing scores 6 to 9 which indicates a preference for rules-based standards. The mean response for Question 4 is 5.01 and the results of the statistical analysis show that the mean response is not significantly higher than the mid-point 5 (one-sample t-test p=0.49, Wilcoxon p=0.48). Thus, the results for Question 4 do not support H_{1a} (See Table 3.3 Panel 4).

Finally, Question 5 asked for participants' preferences with regard to the uncertainty expression "control" used in IFRS 3 on Business Combination which was adopted in Indonesian Statement of Financial Accounting Standards No. 22. The question asked as follows:

> Which approach do you prefer to be applied in the financial accounting standard for Business Combinations: A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains "control" (versus: obtains "50 per cent or more" of the voting power) of the other business (the acquiree)?

Table 3.3 Panel 5 shows that only half of participants, at 57.8%, responded by choosing scores 6 to 9 which indicates a preference for rules-based standards. The mean response for Question 4 is 5.24 and the results of the statistical analysis show that it is not significantly higher than the mid-point 5 (one-sample t-test p=0.22, Wilcoxon p=0.39). Thus, the results for Question do not support H_{1a} (See Table 3.3 Panel 5).

The findings from the hyothetico-deductive framework show contradictory and inconclusive results with regard to professional accountants' preferences for principles-based versus rules-based standards in Indonesia, and thus only provide partial support for the H_{1a}. In particular, the results show a significant preference for the rules-based approach only in respect of uncertainty expressions "major part" and "substantially" used in IAS 17 and Indonesian Statement of Financial Accounting Standards No. 30 on Leases. With respect to the general application of accounting standards as well as specific standards for Investment in Associates and Business Combination, the results largely failed to show a significant preference for principles-based standards.

3.4.1.2. The influence of Construal of Self on professional accountants' preferences

Recall that H_{1b} predicted that professional accountants in Indonesia with a stronger Interdependent than Independent Construal of Self are more likely to demonstrate a greater preference for rules-based standards. As mentioned earlier, the internal consistency of the construal orientation scale is measured using Cronbach's alpha. Scores from each participants' responses relating to twelve questions measuring Interdependent Construal of Self were combined into a single index of personality (Cronbach's α = 0.693). The similar process was also conducted to responses relating to another twelve questions measuring Independent Construal of Self to produce a single index of personality (Cronbach's α = 0.716). Both Cronbach's alpha values are considered acceptable, as often mentioned acceptable level of alpha is 0.7 (Nunnally & Bernstein, 1994). However, the lower value of 0.60 may also be used (DeVellis, 1991). Accordingly, the Cronbach's alpha values for the scales of self-construal are acceptable, ranging from 0.69 to 0.73.

Consistent with previous research, participants' average scores on the Independence and Interdependence subscales of the Self-Construal Scale are computed and then a simple classification method was applied to each subject by subtracting the interdependence from independence scores (see, Cheng et al., 2011). Subjects with a final score larger than zero were classified as Interdependent in respect to Construal of Self, while subjects with a negative score as Independent in respect to Construal of Self. A total of 36 (51 percent) of professional accountants were classified under Interdependent Construal of Self, and 35 (49 percent) were classified under Independent Construal of Self.

This paper tests hypothesis H_{1b} with respect to Construal of Self by using an independent-sample t-test and non-parametric Mann-Whitney test. The results show that Interdependent/Independent Construal Orientation influences professional accountants' preferences in respect of the standard for Leases (see Table 3.4 Panel 2 and 3). The results show that, in respect to the application of the uncertainty expression "major part," participants with higher Interdependent Construal of Self demonstrated a significant preference for rules-based standards, with a mean of 7.14, than participants with higher Independent Construal of Self, with a mean of 5.74 (t-test p=0.03, M-W p=0.004). Moreover, in respect to the application of the uncertainty expression "substantially," participants with higher Interdependent Construal of Self demonstrated a significant preference for rules-based standards, with a mean of 6.69, than participants with higher Independent Construal of Self, with a mean of 5.66 (M-W p=0.037) (see Table 3.4 Panel 2 and 3). Thus, the results provide partial support for H_{1b}.

Table 3.4. Results of the Influence of Construal Orientation on Professional Accountants' Preferences

No.	Uncertainty Expressions	Interdependent (0)/ Independent (1)		Based on: Based on Score of Interdependent and Independent Construal of Self, whichever is higher		
			n	Mean (s.d)	T-test	M-W test
1.	Rules vs. principles	(0)	36	5.58 (2.78)	p=0.840	p=0.75
		(1)	35	5.46 (2.44)		
2.	Major part	(0)	36	7.14 (2.53)	p=0.030*	p=0.004**
		(1)	35	5.74 (2.76)		
3.	Substantially	(0)	36	6.69 (2.77)	p=0.125	p=0.037*
		(1)	35	5.66 (2.86)		
4.	Sig Influence	(0)	36	5.50 (3.26)	p=0.174	p=0.15
		(1)	35	4.51 (2.76)		
5.	Control	(0)	36	5.08 (3.28)	p=0.584	p=0.75
		(1)	35	5.49 (2.86)		

Note: * significant at the 0.05 level,**significant at the 0.01 level (two-tailed)

3.4.1.3. Additional analysis: The influence of work experience

This paper also conducts additional analysis by examining the influence of work experience on professional accountants' preferences in applying accounting standards. Indeed, previous research on professional accountants' experience indicates the importance of experience on professional accountants' judgments. Prior research provides evidence that professional accountants' judgments often improve with greater experience because experience provides an opportunity for the acquisition of relevant technical knowledge which is essential for improving task performance (Libby 1995). Therefore, professional accountants with more experience are usually better at exercising judgments compared to those with less experience (Bonner & Lewis, 1990; Libby & Luft, 1993). Given the suggestion that principles-based standards are suitable for the more expert and experienced accountants, this paper conducts additional analysis to examine whether there are differences in preferences among professional accountants within three different categories of work experience, namely, less than 3 years, 3 to 5 years, and 6 years or more.

Table 3.5. Results of the Influence of Work Experience on Professional Accountants' Preferences

Questions	Experience	N	ANOVA Mean (s.d)	ANOVA Levene Stat	ANOVA Results	K-W test
1: Rules vs. Principles	<3 years (1)	32	5.75 (2.68)	p=0.87	F=0.26 p=0.77	p = 0.71
	3–5 years (2)	22	5.23 (2.25)			
	≥6 years (3)	17	5.47 (2.98)			
2: Major part	<3 years (1)	32	7.00 (1.98)	p<0.001	F=1.22 p = 0.30	p = 0.44
	3–5 years (2)	22	5.91 (2.86)			
	≥6 years (3)	17	6.12 (3.59)			
3: Substantially	<3 years (1)	32	7.13 (1.86)	p<0.001	F=4.37 p=0.016*	p = 0.06*
	3–5 years (2)	22	4.91 (2.93)			
	≥6 years (3)	17	6.06 (3.65)			
4: Significant Influence	<3 years (1)	32	6.28 (2.49)	p=0.041	F=10.39 p<0.01**	p < 0.001**
	3–5 years (2)	22	5.05 (3.09)			
	≥6 years (3)	17	2.59 (2.53)			
5: Control	<3 years (1)	32	6.28 (2.72)	p=0.60	F=7.017 p=0.02*	p = 0.004**
	3–5 years (2)	22	5.50 (2.92)			
	≥6 years (3)	17	3.12 (2.93)			

Note: *significant at the 0.05 level, **significant at the 0.01 level (two-tailed)

The results show that work experience influences the Indonesian professional accountants' preferences in applying accounting standards in respect to standards for Leases, Investment in Association, and Business Combination (see Table 3.5 Panels 3, 4 and 5). In particular, the results in Table 3.5 Panels 4 and 5 show that professional accountants with longer work experience demonstrated a stronger preference for principles-based standards in respect of standards for Investment in Association and Business Combination. Indeed, the results show that participants with less than 3 years' work experience demonstrated a preference for the rules-based standards (means 6.28 and 6.28, respectively), those with 3 to 5 years' work experience demonstrated a lower preference for rules-based standards (means of 5.05 and 5.50, respectively), and those with 6 years' or more working experience demonstrated a strong preference for the principles-based approach (means 2.59 and 3.12, respectively)[7].

3.4.1.4. Additional insights from participants' explanations in the questionnaires

As mentioned earlier, the survey questionnaires were also provided with writing spaces to invite participants to provide explanations for their responses in respect to Questions 1 to 5. Additional insights into professional accountants' preferences in Indonesia were derived from explanations provided by a number of participants. Many explanations demonstrated that, due to the rush toward global convergence, professional accountants in Indonesia perceived they have no choice but to adopt the principles-based approach in their work. This is clearly demonstrated by an explanation from one participant who indicated a general preference for the principles-based standards for Question 1:

> *IFRS give guidance for principles-based, not rules-based standards (male, audit manager, 6 years' professional experience).*

This is reinforced by another participant who also indicated a preference for principles-based standards:

> *We have to start educating people, that to view and treated transactions, it have to be based on the substance. Accounting treatment based only in legal form, while the substance is different, will lead to misleading information and motivate people to misuse rules and legal form for the interest of certain party (male, partner, 18 years' professional experience).*

[7] A different categorization of work experience was also used, namely, 1-4 years and over 4 years. Results of univariate (ANOVA) and Kruskal-Wallis tests show that work experience has significant influence on professional accountants' preferences in applying accounting standards for Investment in Associate (ANOVA $p=0.004$; K-W $p=0.006$) and Business Combination (ANOVA $p=0.006$; K-W $p=0.011$).

In relation to Questions 2 and 3, with regard to uncertainty expressions "major part" and "substantially" used in IAS 17 on Leases, explanations from majority of participants show that in reality when it comes to their current practices and application of specific standard on Leases, professional accountants in Indonesia prefer the legalistic approach of rules-based standards that require less exercise of professional judgments. This is demonstrated by one participant:

> *Criteria such as 75% refer to US GAAP. Indonesian standards and IFRS do not use this type of criteria. However, the more precise measurement makes it easier to draw conclusions. The use of "major part" [less precise criteria] is vague because 51% is included in it (male, manager, 12 years' professional experience).*

This is supported by another participant:

> *75% [the bright-line criterion] is more measurable. The expression "major part" will create debates on how "major part" should be measured (male, senior auditor, 4 years' professional experience).*

In relation to Questions 4 and 5, with regard to uncertainty expressions "significant influence" used in IAS 28 on Investment in Associates and "control" used in IFRS 3 on Business Combination, explanations from the participants show for the inconclusive results in respect of preference between rules-based and principles-based standards. A participant who preferred principles-based standards explained that:

> *In my opinion, control cannot be measured just based on voting right [since] there is qualitative factors that needed to be taken into account and sometimes these factors are very critical in deciding the existence of control (female, audit manager, 8 years' professional experience).*

By contrast, participants who indicated a preference for the rules-based approach explained that:

> *The word significant influence does not provide a clear guidance and require judgments that can be different for each individual (female, senior auditor, 5 years' professional experience).*
>
> *Quantity [such as 50%] is more measurable and undebatable (male, senior auditor, 4 years' professional experience).*

3.4.2. Results of The Qualitative Approach

One of the main objectives of this paper has been to contribute to the methodological aspect of the accounting literature by using both quantitative and qualitative research approaches in examining professional accountants' preferences in applying accounting standards in Indonesia. In particular, the this paper aimed to show that a strong reliance on the purportedly reliable and valid hypothetico-deductive framework of quantitative research to measure complex and multidimensional concepts such as accountants' preferences may provide inconclusive findings and misleading conclusions.

The findings from the in-depth interviews show richer insights and reveal disparity from those of the hypothetico-deductive framework. In particular, consistent with the discussion of Indonesian contextual factors in this paper's theoretical framework, most interviewees support for the suggestion that professional accountants' in Indonesia have a preferences for the rules-based approach in applying global accounting standards such as IFRS. The most important reason is that the professional accountants perceived that the rules-based standards are largely familiar and easier. The results demonstrated that, as noted earlier, due to the rush toward global convergence, professional accountants in Indonesia perceived they have no choice but to adopt the principles-based standards in their work despite their preference for the rules-based standards. This is clearly explained by one interviewee:

> *Yes, accountants prefer rules-based standards because they are easier […] Everybody will say that. Just try to survey accountants in other countries. It is because accountants will not need to think about the quantitative measures in making judgments on accounting treatments …. (Interviewee 6, a professional accountant in a multinational company).*

This was reinforced by another interviewee:

> *I want the easier ones, US GAAP [rules-based standards]. Because, 4 to 5 years [in university], we had been trained with that [type of standards]. I think the clients also have the same preference…. (Interviewee 20, a professional accountant, a former senior auditor in a non-Big Four and a Big Four accounting firms).*

The interview results also support this paper's suggestions that due to the Indonesian relevant contextual, the professional accountants are largely hesitant in exercising extensive professional judgments required in applying principle-based standards (Chariri, 2008; Efferin & Hopper, 2007; Rademakers, 1998; Tsamenyi et al., 2008; Wahyudi, 2009). Moreover, the complexity of the standards exacerbates this issue, and thus reinforces the preference for the rules-based standards instead of exercising independent professional judgments. The majority of interviewees demonstrated that professional accountants prefer to refer back to the pre-convergence Indonesian accounting standards, which is based on the rules-based US standards, as guidance in choosing accounting treatment available in IFRS. As one of the interviewees aptly explained:

> *Most accounting textbook [used in Indonesia] still US-based. They [principles-based standards] are new things which have limited references, and thus, it raises confusions for all stakeholders. We use principles-based standards but we have no guidance. Where can we consult if we have different judgments? If we are confused?... (Interviewee 2, a partner of a Big Four accounting firm and former member of the Public Accountants Professional Standards Board).*

This is reinforced by another interviewee:

> *To date, I see that Indonesian auditors are still conservative. They still try to refer to the old standards [the previous US-based rules-based financial accounting standards before convergence in Indonesia) [...] They are still not confident in exercising their professional judgments [...] I rarely came across clients who [confidently] stated their opinions regarding a particular accounting policy that they have chosen and an assertion they have selected because clients in Indonesia still hesitant to make their own assertion. They tend to consult to and rely on their auditors about what to do. Unless they have a person-in-charge for finance and accounting who has audit background.... (Interviewee 5, a senior auditor in a Big 4 accounting firm).*

Consistent with a large number of accounting literature, the complexity of principles-based standards such as those used in IFRS is considered to further limit the usefulness of accounting information as only experienced accountants are perceived to be able to properly interpret and apply the standards (Alon, 2013; Haswell, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Larson & Street, 2004; Pawsey, 2008). The complexity of principles-based standards, which is largely driven by complex standards that require accountants' professional judgments, has been considered problematic since the beginning of convergence process in Indonesia in 2008. Indeed, most interviewees show concern for the promotion of principles-based standards and professional accountants' judgments by convergence in Indonesia. As explained by one interviewee:

> *IFRS are qualitative [in nature]. For example, account receivable. The previous standards allow us to use aging with only one group. Now [with the IFRS], we have to measure it line per line and provide justifications. The US [version] allows two options, either you can use aging or make a calculation for each line [...] IFRS have no numerical threshold, all based on justifications [judgments].... (Interviewee 21, a professional accountant, a former senior auditor in a Big Four accounting firm).*

The complexity of IFRS is largely caused by the adoption of the principles-based approach with the extensive use of arbitrary judgments in presenting a "true and fair view." The presentation of a "true and fair view" is related to a number of discretionary decisions regarding profit recognition and valuations of assets and liabilities. For example, standards such as IAS 39 on Financial Instruments and IAS 17 on Leases have been regarded as complex standards and have raised controversies among professional accountants. In particular, the IASB advocates the use of fair value measurement which bases the valuation of assets on market prices as opposed to historical costs, which have been used traditionally (Ernst & Young 2005; Perry and Noelke 2006). Moreover, the use of uncertainty expressions exacerbates the complexity experienced in applying these standards. The importance that many interviewees gave to the discussion about fair value measurement reflects the extensive debate on the use of fair value measurement in international accounting literature (Dean & Clarke, 2004, 2005; Peng & Bewley, 2010; Perry & Noelke, 2006; Whittington, 2008). This was aptly explained by one interviewee:

> *Just refer back to our previous Financial Accounting Standards [US-based financial accounting standards prior to convergence]. The most cited problem is [Indonesian] Standards No. 50 and 55 [Financial Instruments: Presentation and Financial Instruments: Recognition and Measurement based on based on IAS 32 and 39] about fair value measurement […] Based on my experience in the banking industry, this requires some type of [complicated] discounted cash flow information, which even I do not understand […] At the end, we [can] refer back to the previous [US-based] standards […] You have a choice to use [a method which is similar to that in] the previous standards…. (Interviewee 3, a manager auditor in a Big Four accounting firm).*

Another interviewee supports these concerns:

> *They [principles-based standards] are complicated. You have to work [at least] in two stages. The previous standards [based on the US-GAAP] were easier, just used the percentage [which was stated in the standards], then you find the amount you needed [as a threshold]. The new standards for example use "major part," they force you to think first, "Can it be considered big?"… (Interviewee 22, a professional accountant, a former senior auditor in a Big Four accounting firm).*

As indicated by the two previous quotes, interviewees considered the extensive use of accountants' discretionary decisions in interpreting principles-based standards including estimating fair values to be highly subjective. This, in turn, shows that most interviewees question the usefulness of information and the comparability of financial statements prepared under the convergence regime. Most interviewees show concerns regarding the extensive use of accountants' professional judgments in applying the global accounting standards which leads to inconsistent interpretation and application of the standards.

However, the IASB's conceptual framework identifies reliability as a requirement for providing useful decision-making information (IASB, 2007, F31). As aptly explained by one interviewee:

> *There are pressures from clients and pressures from peer groups who have different interpretations. That is the problem. Let alone [different interpretations] between client and auditor who usually have different level of understandings, even between one accounting firm and another there can be different interpretations for the same thing. [For] The same transaction, using the same standard, we can come up with different judgments. This is the consequence of IFRS…. (Interviewee 2, a partner in a Big Four accounting firm and a former member of the Public Accountants Professional Standards Board).*

This is supported by another interviewee:

> *If judgments from the same office are different, it is not funny if others questioned them. Thus, we prefer to discuss with auditors who have experienced the same issues to be able to come with consistent judgments […] The wordings used in the standards are qualitative. We hope BAPEPAM-LK [Capital Market and Financial Institutions Supervisory Board in Indonesia] will issue a guide with [a more] precise quantitative measures…. (Interviewee 3, a manager auditor in a Big Four accounting firm).*

The foregoing quotes also indicate the concerns that have been raised on the influence of personal objectives such as the attainment of personal financial gain and entities' concerns about equity structure and credit ratings on the exercise of professional judgments. Indeed, the interview results support the specific criticism that the strong reliance on accountants' professional judgments allows too many opportunities to choose accounting treatments that facilitate the opportunistic interests of company management. Moreover, it is acknowledged that corporate aims and management's personal objectives critically influence the exercise of professional judgments and comparability. These objectives may include simple cost concerns that result in a tendency to exercise judgments in a manner that is consistent with IFRS and even US GAAP to reduce time and cost in preparing various financial reports. As explicitly explained by one interviewee:

> *There is that kind of risk [of more earning management] […] Yes, that kind of risk is surely increased. Then it is auditors that have to be more vigilant to recognize the intention of entity [client] to that direction….(Interviewee 5, a senior auditor in a Big Four accounting firm).*

This was reinforced by another interviewee:

> *The worry is that it will not result in professional judgments. When judgments is freely allowed, it results in "win-win" judgments […] I agree there will be this kind of situation…. (Interviewee 14, a senior lecturer in a metropolitan university and a Sharia accounting consultant).*

Moreover, it is suggested that global standard-setters such as IASB consist mostly of Anglo-American and English-speaking people, and thus strongly supports the fair value approach because of its compatibility with the political economy of Anglo-American countries (Heidhues & Patel, 2012b). For example, the extensive use of fair value measurement in IFRS has been criticized as supporting Anglo-American dominance in political economy with its emphasis on the financing sector, which is highly dependent on capital markets, rather than the productive sector (Gallhofer & Haslam, 2007; Perry & Noelke, 2006). As such, the introduction of IFRS and fair value measurement is said to follow practices that fit the Anglo-American environment and can be regarded as part of an Anglo-American hegemony (Dewing & Russell 2004; Perry & Noelke, 2006; Heidhues & Patel, 2012c). Prior research has even severely criticized global convergence as another form of colonialism and imperialism by serving the interest of powerful capitalists most of them in Anglo-American and European countries, and in international agencies and multinational enterprises (MNE) and who manipulate and exploit various countries' programs and policies with a focus on promoting interest-based capitalism and secularism by utilizing the rhetoric of modernization (Bakre, 2008; Dominelli & Hoogvelt, 1996; Kamla & Roberts, 2010; Sikka, 2001). Concerns regarding the structure of the IASB are also important with regard to the relative source of power of specific groups or individuals. The results provide evidence of a strong perception that the standard setting of the IASB benefits certain individuals and groups, specifically the large audit companies and large multinational enterprises, which have previously been identified as powerful with regard to providing monetary support to the IASB. The interview results provide evidence that the complexity of IFRS is perceived as contributing to a concentration process in the audit market because only the large accounting firms have the capabilities to assess and implement the increasingly complex IFRS. The perception is also expressed that IFRS actually enlarge the market for the Big Four accounting firms. These criticisms reinforce the censure of the increasing internationalization and dominance by US and UK multinational enterprises in the global market that has supported the domination of Anglo-American countries and large accounting firms (Cooper et al., 1998; Jang, 2005; Suddaby et al., 2007). In particular, large accounting firms which are well positioned within the international economic system are capable of mobilizing almost every powerful international actor to overcome the resistance of local players and weaker states to pursue their strategic interests of securing access to the market for professional accounting services (Caramanis, 2002). The movement towards global convergence has resulted in the promotion of Anglo-American dominance and interests by diffusing their accounting practices to other countries, justified by their perceived greater commercial and political development, while other non-Anglo-American values, philosophies, and traditions are largely ignored (Bakre, 2005; Bakre, 2008; Hamid et al., 1993). The issues were aptly explained by explained by one interviewee:

> *The important things for small firms and SMEs [in Indonesia] are Sharia accounting and SMEs accounting [Indonesian financial accounting standards for Entity without Public Accountability]. First, a portion of my people are pure Muslims, pious Muslims, avoiding riba, gharar and maysir. They are always anxious and worried in using conventional banking. [Thus] I have to facilitate them with Sharia banking. The thick [IFRS-based] financial accounting standards, all use fair value. The Sharia economy does not recognized time-value of money, does not recognize fair value; it uses historical basis. Second, in case of mudaraba and musharaka, if fair value is included then [if] there is an increase in wealth due to the use of fair value and then it is shared as profit, that is dhalim [injustice] to debtor. According to the religion, dholim is forbidden. Therefore, it is mandatory for Sharia debtor to use pure historical cost.... (Interviewee 1, a partner in a Non-Big Four accounting firm and a former member of the Financial Accounting and Public Accountants Professional Standards Board).*

This was reinforced by another interviewee:

> *Large accounting firms support [convergence] because it is advantageous for them. Small firms are quite supportive, [but] they are lack on the expertise [required] [...] That is why I see that the tendency is that accounting firms with many international branches gaining more advantages since they have resources to compare similar activities or [financial reporting] issues. It is easier for them to access [information regarding the application of IFRS].... (Interviewee 5, a senior auditor in a Big Four accounting firm).*

In conclusion, the findings provide evidence to reject the global standard-setters' simplistic assumptions that professional accountants in all countries have a preference for principles-based standards. Indeed, the findings from the in-depth interviews clearly show that, in general, professional accountants in Indonesia have realized that there is a movement toward global convergence along with the promotion of principles-based standards and accountants' professional judgments. In an ideal situation, the professional accountants agree with the application of the principles-based approach while perceiving that they have no choice but to adopt it in their work. However, in reality, when it comes to the current practices and application of standards, the professional accountants still prefer the application of the rules-based approach. The results also show criticisms on the complexity and dominant use of arbitrary judgments in applying the principles-based standards. In turn, the results highlight questions with respect to reliability and comparability of financial information under convergence. Furthermore, the interview results support the notion that convergence is biased by emphasizing the interests of large accounting firms and multinational enterprises, and thus it largely promotes the Anglo-American interest and hegemony across countries.

3.5. Conclusions

The promotion of the "substance over form" approach, principle-based standards, and extensive use of professional judgments has stimulated heated debates on Anglo-American bias in the way convergence asserts the superiority of Anglo-American accounting values, principles and practices. An implicit assumption underlying convergence is that the professional accountants in all countries have a preference for principles-based standards. However, there is a lack of empirical evidence to support this assumption. The aim of this paper is to challenge the global standards-setters' simplistic assumption by critically examining a research question with respect to professional accountants' preferences for the application of principles-based compared to rules-based standards in the context of Indonesia. This paper also makes a methodological contribution to the literature by examining professional accountants' preferences based on a hypothetico-deductive framework and a qualitative research approach. For the purpose of this paper, data were collected using a survey questionnaire completed by 71 professional accountants and an in-depth interview with 24 experts on convergence.

In respect to the hypothetico-deductive framework, this paper formulates a hypothesis that professional accountants in Indonesia are more likely to demonstrate a greater preference for rules-based standards than principles-based ones. Moreover, focusing on an important and relevant personality variable of Construal of Self, this paper formulates another hypothesis that professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for rules-based standards. To test the hypotheses, the paper designed a survey questionnaire asking five questions eliciting participants' preferences with respect to the general application of accounting standards and four uncertainty expressions, namely, "major part," "substantially," "significant influence" and "control" which are used in IAS 17 on Leases, IAS 28 on Investment in Associates and IFRS 3 on Business Combination.

The results from the hypothetico-deductive framework show that professional accountants in Indonesia demonstrate a significant preference for the rules-based approach only in respect of the standard for Leases. The results largely failed to show a significant preference for the rules-based approach either in respect to the general application of accounting standards or in respect of the standard for Investment in Associates and Business Combination. Thus, the hypothetico-deductive framework shows contradictory results that may lead to ambiguous conclusions.

In contrast, results from the in-depth interviews provide evidence that professional accountants in Indonesia have realized that there is a rush toward global convergence along with the promotion of principles-based standards and accountants' professional judgments. In an ideal situation, professional accountants agree with the application of principles-based standards and feel they have no choice but to adopt them in their work. However, in reality, when it comes to their current practices and application of specific standards, professional accountants still prefer the application of the rules-based approach. The results also provide criticisms on the complexity and the use of arbitrary judgments in applying the principles-based standards. In turn, the results highlight questions with respect to reliability and comparability of financial information under convergence. Furthermore, the interview results support the notions that convergence is biased by emphasizing the interests of large accounting firms and multinational enterprises, and thus it largely promotes the Anglo-American interest and hegemony across countries. Thus, the findings challenge the simplistic assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards.

In contrast to prior research that has largely relied on narrow and simplistic quantifications and categorizations, this paper contributes to, and extends, the literature by incorporating relevant contextual factors, social, political, and economic, including Islamic *Sharia* and Javanese *adat*. By so doing, this paper provides deeper and richer insights into the relationships between contextual factors, convergence, and professional accountants' preferences in the unique context of Indonesia.

This study's findings have implications for accounting educators within Indonesia who have the responsibility to train future professional accountants to become familiar with and not hesitant in exercising professional judgments. Given the focus of convergence in Indonesia, the findings may also be useful for accounting firms in designing training programs and audit team allocation. Moreover, the gender imbalance highlighted in the demographic data of participants in this study may be of interest to accounting educational institutions and accounting firms in designing strategies to reduce the disparity.

The findings of this paper have implications for the convergence of accounting and auditing standards, particularly in Islamic countries. The results of this study may interest the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) in relation to convergence of accounting and auditing standards, and in harmonization of accounting and auditing education.

The findings provide evidence of concerns with respect to the promotion by convergence of principles-based standards and accountants' professional judgments which indicate an assumption on their universal acceptability. These concerns are substantiated by evidence that professional accountants in Indonesia show a greater preference for the rules-based approach in their application of global accounting standards. This raises questions about the potential to achieve the global standards-setters' main objective of international comparability of financial reporting. The findings on this paper are of relevance to stakeholders in countries that plan to join the convergence. Finally, the findings contribute to international accounting research by providing evidence of the benefits to be derived from invoking broader perspectives and integrating multiple approaches in international accounting research.

The results of this paper should be interpreted in light of several limitations. The results of the hypothetico-deductive approach based on an examination of three uncertainty expressions may not be generalizable to other uncertainty expressions. Moreover, the sample of professional accountants selected for this paper may not be representative of all Indonesian professional accountants. It is acknowledged that the research sample is relatively small and the sample of professional accountants is limited to lower and medium ranks in audit firms. Thus, it is recommended that this study be extended to professional accountants at higher ranks. Furthermore, one limitation of qualitative research approach is its dependence on the individual skills of researchers and potential influence of researchers' personal biases and values. Qualitative approach often faces issues of data reliability and validity of conclusions. This paper has aimed to minimize these concerns by invoking a triangulation strategy by using multiple sources of interview data, namely, from leading accounting academics, senior professional accountants, and members of national standards-setting bodies. The use of data triangulation is promoted to allow the examination of a broader range of issues and to enhance data reliability by enabling internal check on its validity.

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Chapter 4: Gender-Based Auditors' Judgments in Indonesia

Abstract

The global rush towards convergence of financial reporting has attracted increasing interest on the influence of social, political and economic factors including culture on accounting. Moreover, the current focus on Islam has stimulated a growing investigation on issues related to Islam and accounting. However, concerns have been raised about the narrowly-focused approaches, such as simplistic assumptions of homogeneity in values and judgments of accountants across Islamic countries that have largely dominated the literature in Islamic contexts. Concerns are also raised in respect of the lack of research examining issues related to gender in Islamic countries. As such, the objective of this paper is to reject the simplistic assumption of homogeneity in the values and judgments of accountants across Islamic countries by focusing on significant within-country differences in those judgments between two important ethnic groups in Indonesia, namely, the Javanese and Minangkabau. Specifically, this paper examines the influence of auditor-gender and client-gender on accounting students' and professional accountants' judgments of Javanese and Minangkabau ethnic groups in respect of client-provided explanations of a potentially obsolete inventory balance. Data were collected using a survey questionnaire distributed to professional accountants and final year accounting students in Indonesia. This paper finds that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. In contrast, this paper finds that there is no difference in relation to the influence of client-provided explanations between Minangkabau male and female students. Thus, these findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. This paper also examines the competing influence of organizational culture of accounting firms on professional accountants' judgments. The findings show no differences in relation to the influence of client-provided explanations on male and female Javanese and Minangkabau professional accountants. Thus, the findings provide support that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. Findings with respect to accounting students have implications for accounting education within Indonesia. While findings with respect to professional accountants have implications for accounting firms in relation to training design and audit team assignment. The findings have implications for the global convergence of accounting and auditing standards and harmonization of accounting education, particularly in Islamic countries.

Key words: Indonesia, Islam, contextual factors, gender and judgments

4.1. Introduction

The forces of globalization and the global rush toward global convergence of financial reporting have attracted increasing interest from researchers to examine the influence of social, political and economic factors including culture on accounting (Alp & Ustundag, 2009; Chand et al., 2011; Chand & Patel, 2008, 2011; Chand et al., 2010; Ding et al., 2007; Heidhues & Patel, 2011, 2012; Hellmann et al., 2010; Hellmann et al., 2013; Irvine, 2008; Joshi & Al-Basteki, 1999; Joshi et al., 2008; Patel, 2003; Patel et al., 2002; Patel & Milanta, 2011; Peng et al., 2008; Tyrrall et al., 2007). The global convergence of financial reporting refers to the adoption of International Financial Reporting Standards (IFRS), International Standards of Auditing (ISA), the Code of Ethics for Professional Accountants (the Code) and International Education Standards (IES) as national standards and/or guidelines in various countries around the world.

The convergence are mainly related to activities of global standards-setters, namely, the International Accounting Standards Board (IASB) and International Federation of Accountants (IFAC). The IASB issues IFRS with the objective "to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards based on clearly articulated principles" (IASB, 2014). The IFAC through its International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB) issues ISA, the Code and IES to serve the "public interest" by strengthening the profession and contributing to the development of strong international economies (IFAC, 2014). Currently, 128 countries have approved the use of IFRS for their domestic listed companies and 130 countries have committed to adopt ISA, the Code and IES as national standards (Deloitte Touche Tohmatsu Limited, 2013; IFAC, 2014). It is clear that the global standards-setters have assumed that accounting is neutral, objective and value-free and the adoption of one single set of global accounting standards will lead to the achievement of comparability of financial information both within and across countries.

However, it is important to note that IFRS, IAS, the Code and IES strongly rely on the "substance over form" approach (Agoglia et al., 2011; Bennet et al., 2006; IASC, 2000, p. 24; McEnroe & Sullivan, 2013; Schipper, 2003). This approach requires the extensive use of accountants' professional judgments to examine the nature and context of business transactions rather than fixating on their legal form. This indicates that the achievement of comparability largely depends on the consistency of professional judgments among accountants within and across countries (Chand et al., 2010; Chand & White, 2007). Thus, the crucial issues in accounting are not simply a matter of getting the technical aspects correct, but also about understanding the linkage between relevant contextual factors and accountants' professional judgments within and across countries (Patel, 2004). Prior studies comparing Anglo-American and emerging economies have supported the influence of relevant contextual factors, especially culture, on perceptions of auditor independence and accountants' values and judgments (Chand et al., 2011; Chand et al., 2010; Doupnik & Riccio, 2006; Doupnik & Richter, 2004; Hwang et al., 2008; Patel, 2003; Patel & Milanta, 2011; Patel & Psaros, 2000). As such, one purpose of this paper, using Indonesia as a case study, is to raise questions about the achievement of the global standards-setters' objective, namely, comparability of financial information within and across countries.

Moreover, the current focus on Islam has stimulated a growing investigation of various issues related to Islam and accounting. However, narrowly-focused approaches such as the simplistic assumption of homogeneity in values and judgments of accountants across Islamic countries has largely dominated the literature in the Islamic context (Arzova & Kidwell, 2004; Askary & Jackling, 2004a; Hassan & Theodore, 2005; O'Leary & Mohamad, 2006; Al-Shammari et al., 2008; Saat et al., 2010). Indeed, researchers have tended to suggest that the religion of Islam transcends the national and cultural boundaries of Islamic countries even though believers in Islam may differ significantly in many aspects, for example, in respect of their ethnicity, native languages and their special indigenous customs (Askary & Jackling, 2004b; Gambling & Karim, 1986; Hamid et al., 1993; Sulaiman & Willett, 2003).

Furthermore, concerns have been raised about the lack of research on issues related to gender in non-Anglo American contexts, especially in Islamic countries (Broadbent & Kirkham, 2008; Gallhofer, 1998, p. 358). The dearth of gender research in Islamic countries is surprising since gender, or "*al-jins al-bashari*," is a controversial and important aspect of Islam. Indeed, it has been acknowledged that Islam imposes its own rules on how men and women should behave and it is suggested that these expectations are more rigid than most other notions of gender. In particular, the largely paternalistic interpretations of Islamic law (*Sharia*) by Islamic scholars in respect of issues related to gender often leads to rules that promote discrimination against women (Anwar & Rumminger, 2007; Mir-Hosseini, 2009; Othman, 2006).

The main objective of this paper is to reject the simplistic assumption of homogeneity in values and judgments of accountants within and across Islamic countries by focusing on significant within-country differences in judgments between two important ethnic groups in Indonesia, namely, the Javanese and the Minangkabau. In particular, this paper examines the influence of auditor-gender and client-gender on judgments of accounting students and professional accountants[1] with respect to client-provided explanations on a potentially obsolete inventory balance in audit.

Indonesia provides a relevant and unique context for the purpose of this study. With a population of around 253 million which are dominated by Islamic followers (87 percent), Indonesia is the largest Islamic country in the world. Indonesia also comprises more than 300 ethnic groups such as the Javanese, Minangkabau, Sundanese, Madurese, Betawi, Batak, Bugis and Banjar (Central Inteligence Agency, 2014; Liddle, 1996). These ethnic groups are distinguished by name, language, custom and social organizations, including gender roles, which is known as *adat*[2]. *Adat* serves as a foundation of ethnic identity throughout Indonesia (Blackwood, 2001, p. 126; Henley & Davidson, 2008, p. 817). The strong sense of ethnic identity is reflected, for example, in daily conversation in most cities (except Jakarta and Medan) that is conducted in an indigenous language (Peacock, 1973).

Javanese and Minangkabau ethnic groups were chosen for the examination for two reasons. First, both ethnic groups are very different in respect of the Islamic influences on their *adat*. For example, although the majority of Javanese are Muslims, the Islamic beliefs and practices of nearly two-thirds of the ethnic Javanese are so diluted with Hinduism and animism that they practically form a separate religion (Peacock, 1973; Liddle, 1996). This group is known as *Abangan* as opposed to *Santri*, the purist Javanese Muslims groups. By contrast, the Minangkabau are commonly regarded as devout

[1] The terms professional accountants and auditors are used interchangeably for the remainder of this paper.
[2] The concept of *adat* comprises customary laws and the unwritten traditional code prescribing accepted customs, beliefs, practices and institutions regulating social, political and economic inherited by societies as oppose to required set by the state (Blackwood, 2001, p. 126; Henley & Davidson, 2008, p. 817). (Additional details are presented in Chapter 2, p.41)

Muslims and the historical literature shows that reformist Islam has been especially successful among them (Abdullah, 1966; Blackwood, 2000; Peacock, 1973).

Second, both ethnicities are also very different in terms of their *adat* view on gender. For example, Islamic *Sharia* regulates that inherited property should be divided among all children with larger shares going to sons. In the Javanese *adat*, inheritance is bilateral, although females may receive less than their brothers (Geertz, 1961). By contrast, in the Minangkabau *adat* which is based on a matrilineal kinship pattern, families and lineages are oriented around the mother and her daughters and sons; rice farming and lifecycle ceremonies are organized by and through women and their brothers. Interestingly, the matrilineal Minangkabau have been regarded as devout Muslims although their inheritance practices are conflict with Islamic notions of inheritance, showing that in some places compromises have been reached (Blackwood, 2000, p. 1).

Given the increasing interest in Islamic contexts, a number of prior studies have examined gender-related issues in various Islamic countries. However, these studies have largely focused on cross-cultural differences between accountants from Islamic and non-Islamic countries (Arzova & Kidwell 2004; O'Leary & Mohamad, 2006), ethical judgments (Ekin & Tezolmez, 1999; Hastuti, 2007; Jamilah et al., 2007; Modarres & Rafiee, 2011; Mutmainah, 2007; Nugrahaningsih, 2005; Saat et al., 2010), audit judgments (Hamzah & Paramitha, 2008; Hidayat & Handayani, 2010), and issues related to career (Lindawati 2010; Kamla, 2012). Importantly, most prior studies have suffered from theoretical and methodological limitations, and consequently have largely failed to provide rigorous examinations of the complex and multidimensional issues related to gender. For example, prior cross-cultural studies involving Islamic countries have strongly relied on narrowly-focused quantification and categorization, for example, Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions, to draw theoretical links between culture and ethical judgments of accountants in different countries (Arzova & Kidwell 2004; O'Leary & Mohamad, 2006). Moreover, most prior studies focusing on Islamic countries have largely failed to incorporate the influence on accounting of relevant contextual factors including Islamic *Sharia* and important indigenous values. Importantly, most these studies have overlooked the possibilities of between country and within country differences in judgments (Ekin & Tezolmez, 1999; Hamzah & Paramitha, 2008; Hastuti, 2007; Hidayat & Handayani, 2010; Jamilah et al., 2007; Kamla, 2012; Lindawati & Smark, 2010; Modarres & Rafiee, 2011; Mutmainah, 2007; Nugrahaningsih, 2005; Saat et al., 2010).

This current paper contributes to the literature by invoking unique aspects of Islamic influence with specific reference to differences in gender roles between the Javanese and the Minangkabau in examining students' judgments. The focus of the Javanese is on hierarchy and "woman's nature" (*Kodrat Wanita*). This indicates male domination of the outside world of politics and work with females confined to domestic activities, obedience and passiveness. The idea of gender equality was largely alien in among the Javanese, so it is expected that Javanese male and female students are more likely to exhibit differences in their judgments in respect to client-provided explanations. In contrast, the Minangkabau emphasis is on women as central focus of inheritance and kinship. Women enjoy respect and high status, and participate as actively in decision making as their male counterparts. The idea of gender equality is more readily accepted in Minangkabau, so that Minangkabau male and female students are more likely to exhibit similarities in their judgments in respect to client-provided explanations.

Data for this paper were collected using a survey questionnaire distributed to professional accountants and final year undergraduate accounting students in Indonesia. Some major findings of this paper are as follows. First, the findings show that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. In contrast, this paper finds no differences in relation to the influence of client-provided explanations between the Minangkabau male and female students. Thus, the findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. Second, by focusing on the competing influence of the organizational culture of accounting firms on judgments of professional accountants, the findings show no differences in judgments between Javanese and Minangkabau professional accountants, whether male or female, with respect to client-provided explanations on the potentially obsolete inventory balance. Thus, the findings show that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. These findings show that future research needs to invoke broader and more critical perspectives to further investigate the complex issues related to gender and accounting judgments.

The remainder of this paper is organized as follows. Section 4.2 provides the literature review and theory development for this paper. This section includes discussions on Islam and prior research in Islamic countries, gender in Javanese and Minangkabau *adat* and its implications to judgments, and organizational culture of accounting firms. Section 4.3 discusses hypothesis formulation on the influence of auditor-gender and client-gender on judgments of Javanese and Minangkabau accounting students and professional accountants in respect to client-provided explanations. Section 4.4 presents the research methods and is followed by results in Section 4.5. The final section concludes the paper by recommending that international accounting research will be enhanced by taking into account social, political and economic factors of a given country rather than a strong reliance of narrowly-focused approaches such as quantification, simplification, and categorization.

4.2. Literature Review

4.2.1. Insights into Islam and Prior Research in Islamic Countries

The religion of Islam has about 1.2 billion followers (Muslims), representing 25 percent of the world's population. Muslims are widely spread all around the globe but mainly concentrated in Islamic countries, where Islam is dominant in the society, mostly in the Middle East, South East Asia, Africa, and Central Asia. One central characteristic of Islamic countries is the requirement for compliance with Islamic law (*Sharia*) in almost every aspect of life, both in religious and secular activities. The *Sharia* is primarily based on ethical principles and guidelines from the Quran, the Islamic holy book, and the oral teachings or behavior of the Prophet Muhammad (*Sunna*). In relation to topics which are not addressed in the Quran and *Sunna*, *Sharia* also supplemented by the exercise of judgments in the elaboration and explanation of the *Sharia*, interpretation of the texts of the Quran, and its application in specific circumstances. This judgments include analogy (*qiyas*), consensus among Muslim scholars (*ijmaa*), and independent juristic reasoning (*ijtihad*) (Anwar & Rumminger, 2007; Mashhour, 2005; Mir-Hosseini, 2009)[3].

It is commonly recognized that gender or "*al jins al bashari*" is an important and controversial topic in Islam. Gender refers to concepts related to differences between male and female including their respective roles and responsibilities based in social and cultural contexts. Gender leads to stereotyping certain personality characteristics (traits) in the masculine (or instrumental) and feminine (or expressive) domain (Korabik, 1999). As only a small part of gender differentiation is biologically determined, the stability of gender patterns is almost entirely a matter of socialization. Socialization is the process by which

[3] Additional details are presented in Chapter 3, p. 146-148.

cultural patterns are transferred from one generation to the next. Socialization means that both men and women learn their place in society and, once they learn it, the majority of them “want it to stay that way” (Hofstede, 1980, p.180).

Islam is known to impose its own rules relating to how men and women should behave and these expectations are said to be more rigid than mostly other cultures’ notions of gender. In most Islamic countries the national Family Law is generally based on the *Sharia*. However, the readings of the Islamic sources as well as the religious jurisprudence (*fiqh)* itself have been and still are almost exclusively in the hands of male religious scholars. As a consequence, most Islamic writings are interpreted in a patriarchal way (Othman, 2006). The *Sharia* is interpreted differently from country to country based on the Islamic schools of thought (*mazehab*) and often discriminates against women (Anwar & Rumminger, 2007; Mir-Hosseini, 2009; Othman, 2006). One example of *Sharia* in relation to “*al jins al bashari*” is Islamic inheritance law which stipulates that inherited property should be divided among all children, with larger shares going to sons. Another important example is the Islamic emphasis on family as the core unit of society and, in turn, the important role of a mother to lay down fundamental Islamic ethical norms for her children. This *Sharia* is commonly interpreted to mean that the primary role and responsibility of women in the family is as obedient wives and dutiful mothers and daughters. Women’s primary responsibilities are as care-givers, nurturers and service providers for the needs of the male members of their families whose only role seems to be as head or breadwinner of the family. The most liberal form of this rhetoric claims that a woman may be allowed to fulfill other social aspirations, such as having a career outside the home, only with the explicit permission of her husband. In fact, some of the discourse by traditional Islamic scholars (*ulama*) is that a wife always requires the permission of her husband before she can undertake any activity outside the home. This includes going shopping, going out with her friends, or even visiting her parents or relatives. Similar to other types of patriarchal conceptions of gender roles, Islamists claim that the main justification and rationale for such restrictive views is the need to protect women (Anwar & Rumminger, 2007; Mir-Hosseini, 2009; Othman, 2006). Thus, gender views in Islam largely reinforce the predominant socialization pattern that male behavior is associated with autonomy, aggression, exhibition and dominance while female behavior is associated with nurturance, affiliation, helpfulness, and humility (Hofstede, 1980, p.178). This common pattern of male assertiveness and female nurturance leads to gender-role perceptions of male dominance in careers such as politics and economics while women are centered within the household.

It is clear that *Sharia* influence on values, judgments and behavior in Islamic countries cannot be ignored in order to provide a rigorous and critical examination of accounting in this context. However, prior research in Islamic countries has largely failed to incorporate *Sharia* in its analysis. Instead, prior research has tended to rely strongly on the assumption that Islamic countries prefer certain values and judgments that uniformly apply within and across countries in this category. Indeed, as previously discussed, narrowly-focused approaches such as simplified assumptions about homogenous values and judgments of accountants within and across Islamic countries has largely dominated research in this context (Al-Shammari et al., 2008; Arzova & Kidwell, 2004; Askary & Jackling, 2004; Beekun et al., 2007; Hassan & Theodore, 2005; O'Leary & Mohamad, 2006; Muhammad, 2009; Saat et al., 2009; Srnka et al., 2007). For example, Askary and Jackling (2004a) examined compliance with International Accounting Standards' (IAS) disclosure requirements as a measure of transparency in Islamic countries. In particular, that study focused on twelve Middle Eastern and Asian countries, namely, including Bangladesh, Indonesian, Malaysia, Bahrain, Iran, Jordan, Kuwait, Oman, Pakistan, Qatar, Saudi Arabia and Turkey. The study largely relied on simplification and categorization of cultural dimensions, yet overlooked the influence on accounting in those countries of relevant contextual factors including *Sharia* and indigenous values. Indeed, the authors argued that despite the differences in demographic characteristics, political regimes, governmental structures, legal systems and some facets of social structure, the overall social values of these selected Islamic countries are the same according to the criteria set out by Hofstede (1982), Gray (1988) and Perera (1989). Importantly, that study also argued that the similarities in those countries' overall social values is consistent with the strong influence of Islam and the Islamic belief in not differentiating secular and religious aspects of life. Therefore, the authors anticipated that there would be a strong interaction between religion and disclosure practices in these countries that would be indicated by accounting practices that conformed to their Islamic principles. However, contrary to that expectation, the overall results of that study did not confirm the strong influence of Islam on accounting practices in those countries. Indeed, the study found high degree of variation in compliance with IASs in these countries. The degree of conformity with IASs from less to high is: Saudi Arabia, Qatar, Bangladesh, Iran, Bahrain, Jordan, Pakistan, Oman, Turkey, Malaysia, Kuwait and Indonesia.

In another study, Al-Shammari et al. (2008) examined company compliance with IASs in the Gulf Co-Operation Council (GCC) member states, namely, Bahrain, Oman, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Their study focused on factors such as legal requirements, quality of the audit function, and activities of enforcement bodies; once again overlooking relevant contextual factors including *Sharia* and indigenous values that may have an important influence on judgments in these six Islamic countries. As a consequence, the authors could not provide particularly rich explanations with regard to their unexpected findings. The study also found that, despite the highlighted strong economic and cultural ties between the GCC states, there were significant variations in compliance between them and also between companies based on size, leverage, internationality, and industry. This study only concluded that noncompliance reflected some ineffectiveness in the functions of external auditors and enforcement bodies in those countries. Should this study have incorporated relevant contextual factors of these countries in their analysis, it would have been able to provide richer insights into the findings of between-country differences in compliance with IAS.

A different approach was used by Hassan and Christopher (2005) in their qualitative examination of the influence of religion on disclosure in corporate governance statements of three major Malaysian banks, included conventional and Islamic banks. However, strongly relying on the commonly-held assumptions about homogenous values and judgments of accountants across Islamic countries, the authors overlooked the possibilities of interaction between *Sharia* and indigenous values in Malaysia. Indeed, they argued that, given the characteristics and values promoted by Islam, there is an expectation that in Malaysia, an Islamic organization such as the Bank Islam should make additional governance disclosures that would set it apart from conventional banks. As a consequence, the researchers could not provide a rich understanding of their finding that the role of Islam in Malaysia was not as expected. In particular, the study found that Islamic organization had not resulted in better corporate governance practices and disclosures compared to other secular banking institutions that have fewer Malay/Muslim directors. Should the study had invoked the relevant contextual aspects of Malaysia, it would have been able to offer richer insights into interactions between Islamic and indigenous values and their influences on perceptions and judgments.

In relation to gender and accountants' judgments in Islamic countries, a number of studies have provided evidence that contextual factors, especially cultural ones, influence gender-related judgments in Islamic countries. However, prior studies have largely focused on demonstrating differences between accountants from Islamic and non-Islamic countries, with mixed results. For example, Arzova and Kidwell (2004) examined cultural influences on ethical judgments in Turkey, Australia and Ireland. By using students as a surrogate of professional accountants, the study showed that Turks demonstrate a more ethical behavior compared to Australians and Irish, and Turkish males in particular were found to be more likely to engage in unethical actions compared to their female counterparts. Moreover, O'Leary and Mohamad (2006) examined cultural influences on ethical perceptions in Malaysia, Ireland and Australia. By also using accounting students as a surrogate of professional accountants, the study showed that Malaysian students were most likely to refuse to participate when confronted with bribery scenarios and that Malaysian males were more inclined to consider engaging in this behavior compared to their female counterparts. In contrast, the study also showed that Malaysian students were more likely to cheat in an exam. Moreover, when confronted with examination scenarios, females were more inclined to consider engaging in this behavior compared to their male counterparts.

However, it is important to note that these prior studies have largely relied on narrowly-focused categorization, such as Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions, to draw theoretical links between cultural values and judgments in those different countries. Indeed, criticisms have been raised in relation to the simplistic assumptions as well as the theoretical and methodological limitations of Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions and Gray's (1988) accounting values (Baskerville, 2003; Heidhues & Patel, 2011; Patel, 2004). For example, Hofstede's (1980) cultural dimensions is criticized because it equated nation states with cultures based on the simplified assumption and categorization that any society is homogenous and overlooked incorporating within-country differences (Baskerville, 2003). As such, it is suggested that relevant contextual factors be incorporated to provide richer and deeper understandings of interrelationships between cultural values and accounting (Heidhues & Patel, 2011; Patel, 2004, p. 71).

Similarly, while previous studies have also examined issues related to gender-based judgments in Islamic countries such as Iran, Syria, Turkey, Malaysia and Indonesia, their strong reliance on quantifiable and narrowly-focused theoretical approaches has limited the richness of the insights they can offer into understanding the interrelationships between contextual factors, Islam, and accounting judgments (Ekin & Tezolmez, 1999; Hamzah & Paramitha, 2008; Hastuti, 2007; Hidayat & Handayani, 2010; Jamilah et al., 2007; Kamla, 2012; Lindawati & Smark, 2010; Modarres & Rafiee, 2011; Mutmainah, 2007; Nugrahaningsih, 2005; Saat et al., 2010). Indeed, most of these studies suffered from theoretical and methodological limitations, and thus largely failed to incorporate the influence of relevant contextual factors including Islamic *Sharia* and specific ethnic indigenous values on accounting in a given Islamic country and the possibilities of within-country differences in judgments.

For example, Ekin and Tezolmez (1999) examined individual factors influencing ethical judgments of managers in Turkey. By using a questionnaire comprising eleven unethical business scenarios, the study showed that gender significantly explained differences in managers' ethical judgments with female managers demonstrating more ethical judgments compared to their male counterparts. In Iran, Modarres and Rafiee (2011) examined factors influencing accountants' ethical judgments. The study used a questionnaire comprising ethical standards from various views (egoistic, utilitarian, religious, deontological, and amoral) distributed to a sample of accounting students. The study showed that gender along with level of education, work experience and familiarity with the Iranian Association of Certified Public Accountants' Code of Ethics were correlated with differences in ethical judgments. In particular, the study showed that females had stronger religious beliefs and were less egoistic compared to their male counterparts. In Malaysia, Saat, Porter and Woodbine (2010) examined the influence of ethics courses on ethical judgments of Malaysian students. By using a Defining Issues Test (DIT) instrument, the study showed that students who attended an ethics course demonstrated an improvement in their ethical judgments compared to those who did not, with male Muslim students demonstrating a more significant improvement in the use of principled reasoning skills compared to their female counterparts.

In Indonesia, most studies focused on gender as a part of personality variables and have shown mixed findings in relation to gender influence on accounting judgments. For example, Nugrahaningsih (2005) examined the influence of personality factors, namely, locus of control, experience, gender and equity sensitivity, on ethical behaviors. Using a sample of auditors in Central Java, the study showed that gender had no significant influence on ethical behaviors. On the other hand, locus of control, experience and equity sensitivity (benevolent and entitled) have significant influences on auditors' ethical behaviors. Zulaikha (2006) examined the influence of gender, experience and task complexity on auditors' judgments in Central Java. Using a sample of postgraduate accounting students, the study showed that the main effect of gender and the interaction of gender and task complexity had no influence on auditors' judgments while the interaction effect of gender and audit experience had a significant influence on auditors' judgments. Further, Hastuti (2007) examined gender influence on ethical behaviors of accounting students while Mutmainah (2007) examined gender influence on ethical behavior of accounting lecturers and students in Java. These studies showed no differences in ethical behaviors between males and females, whether lecturers or students. Moreover, Hamzah and Pramita (2008) examined the influence of gender and job-related stress on ethical behaviors. By using a sample of auditors in East Java, their study showed that female auditors tend to demonstrate higher level of ethical behavior and higher level of job-related stress compared to their male counterparts. Focusing on a different context outside Java, Hidayat and Handayani (2010) examined the influence of personality factors (locus of control, self-efficacy, level of education, job experience and gender) and cognitive factors (ethical considerations) on auditors' judgments in in situations of audit conflict. By using a sample of internal auditors working in local state government in Sulawesi, the study showed that locus of control, self-efficacy and level of education influenced auditors' judgments. In contrast, the study showed that gender, job experience and ethical considerations did not have an influence on auditors' judgments.

A different and broader approach has been adopted by prior studies using a qualitative research methodology in examining gender-related issues in Islamic countries. For example, Kamla (2012) investigated the impact of globalization on the accounting profession in Syria. By focusing on aspects of women's apparel in Islam, the study showed that the increasing influence of Anglo-American accounting and finance firms in Syria has hindered women, especially women wearing a form of Islamic headscarf (*hijab*), to access and progress in their work-places. In Indonesia, Lindawati and Smark's (2010) examined reasons for the lack of females rising to partner positions in accounting firms. The study showed that Indonesian traditional cultures, in particular the Javanese *adat* view on the proper role of women, limits the role of woman in society. However, it is important to note that these prior studies tended to focus only on certain contextual factors of a country, such as cultural aspects in Lindawati and Smark (2010) and political and business aspects for Kamla (2012), while overlooking other relevant contextual factors. As such, these prior studies largely failed to incorporate important contextual factors such as *Sharia* and the possibilities of differences in gender views between and within Islamic countries.

It is important to note that the focus of most prior studies in Indonesia on Javanese settings indicates a narrowly-focused assumption that the Javanese context was representative of Indonesia and that the findings of these studies can be applied generally throughout Indonesia (Zulaikha, 2006; Hastuti, 2007; Jamilah et al., 2007; Mutmainah, 2007; Fitria and Setyawardani, 2008; Hamzah and Pramita, 2008; Trisnawati, 2008; Lindawati and Smark, 2010). As a result, they reinforced the simplistic assumption of homogenous values and judgments within a given Islamic country. However, it is important to note that Indonesia is a multi-ethnic society with differences in indigenous values (*adat*) and other contextual factors among various ethnic groups. The contextual environment of Java differs quite substantially compared to that outside Java, so that it is very likely to be misleading to assume that these findings would apply uniformly to the context of other ethnic groups in Indonesia.

The previous discussion on prior research in Islamic countries and their theoretical and methodological approaches indicates the importance of incorporating relevant contextual factors, including *Sharia* and important indigenous values, in examining accounting judgments in Islamic countries. This is consistent with Patel's (2004, p.71) suggestion for drawing cultural values from historical, sociological, psychological and other relevant literature that would identify and provide an understanding of the core and also the peripheral values in a given society. Supporting this suggestion, Heidhues and Patel (2011) and Hellmann et al. (2010) provide evidence that, in contrast to reliance on narrow and simplistic categorizations, specific cultural, economic, and social, and legal environment can provide richer insights in understanding accounting models in Germany and their tendency to restrict financial disclosures, and issues associated with the country's convergence process with IFRS, respectively. The next sections provide insights into the unique aspects of Islamic influence in Indonesia, especially relating to gender views of the

Javanese and Minangkabau, as these provide the basis for the hypotheses developed in Section 4.3.

4.2.2. Gender in Javanese Adat *and Its Implications for Judgments*

Around 120 million ethnic Javanese occupy two-thirds of the island of Java, especially its central and eastern parts. The people of the island consist of three main groups, namely, the Javanese, Sundanese and Madurese. Like all the people of the archipelago, the Javanese predominantly practice irrigated rice agriculture (Peacock, 1973).

The root of Islamic influence in Java is documented in the conversion of the Javanese ports of Demak, Jepara, Tuban and Surabaya in the 16th century. By the 18th century, an Islamic lifestyle had been established in these ports, and in the interior in Muslim enclaves formed by *pesantren* (Islamic schools) and the villages surrounding them (Peacock, 1973, p. 23). However, like almost all regions in Indonesia, Islamic culture blended with the indigenous to form a syncretic religion, with purity and piety being strong in the coastal area. Likewise, although most Javanese are Islamic followers, the Islam they profess is in many areas of Java a nominal kind of Islam with strong indigenous influences (Geertz, 1960).

In the central Javanese heartland of Hindu civilization, Islam was syncretized with Hinduism, Buddhism, and indigenous animistic beliefs to form a blend known as *Abangan* (Peacock, 1973, p. 23). Around two-thirds of the ethnic Javanese is *Abangan* (Liddle, 1996, 65). However, another pattern of Islam among the Javanese is commonly called the *Santri*, in its broadest sense referring to the pious practice of the Islamic faith. The *Santri* are those Javanese Muslims who strongly endeavor to carry out the five pillars of Islam and who are followers of a strongly Muslim and rather Arab style of life. The *Santri* have taken the oath, faithfully pray five times daily, fast during the holy month of Ramadhan, pay the religious tax, and make the pilgrimage if health and finances permit. The *Santri* also abstain from eating pork and drinking alcohol (Peacock, 1973, p.26).

Javanese society is hierarchical and the Hindu element of caste (social group) has blended with other elements within Javanese society, which is evident in the social segregation of the classes, although this element is more evident and prevalent among the highest class of society, known as *priyayi* (Geertz, 1960). Javanese of the lower social classes (in the villages and the markets) model their lifestyles after the admired *priyayi* (Geertz, 1961).

Javanese gender role perceptions indicate male and female domination in different realms in life: "the male area is the outside world of politics and power, of work, position, prestige and hierarchy; the female centers on the home, the children, education and care" (Mulder, 1994, p. 62). This view places women's role as home centered, thereby limiting the female role in society (Brenner, 1998). In particular, the role of females in *adat* is largely defined in the *Kodrat Wanita* (woman's destiny or rightful behavior). The traditional *priyayi*'s *adat* offered a woman no role outside the family hierarchy, she was daughter, sister, wife and mother, roles that were, in essence, not envisioned as being truly simultaneous (Tiwon, 1996). As she developed biologically, a woman was expected to discard one role in order to take on the next. As soon as she was tweve years old, the young girl was secluded in her father's house. Until the moment she married and moved to her husband's house, a woman could not leave this prison. They had no say in the choice of husband since this was determined by their parents, usually the father, often when they were still very young. Moreover, the reasons for the marriage rarely had much to do with ideas of their own welfare; the marriage of a daughter served mainly to enhance the social or economic standing of her father (Tiwon, 1996).

In a study on gender relations in literary texts that were inscribed at the Solo (also known as Surakarta) court in the 19th century, Florida (1996) shows that most literary writing specifically on women and gender relations in 19th century Java were written in male voices, belong to male fantasy worlds, and were actually written by men. Florida (1996) refers particularly to a genre of didactic literature known as *piwulang estri*, or "lessons for women." These two texts write about gender relations in a way that imagines a war already won, instead of in the idiom of the battlefield. They consist of directives by an occupying army of victorious men to a subjugated female enemy. Written in intimidating male voices addressed to ideally already defeated women, these lessons mean to inculcate and enforce wifely virtue among elite Javanese women. The lessons instruct young upper class women on how to be good wives, that is, perfect pleasing and submissive, and especially co-wives, to the Javanese noblemen who, for the most part, authored these texts (Florida, 1996). Interestingly, the crux of the lesson is the demand that women show complete and total submission to their husbands' authority and desires. The perfect wife, it is said, should not be averse to whatever her husband wishes, "even should his pleasure be flailing wives alive" (Florida, 1996, p. 210). To cross a husband would be tantamount to crossing one's parents, one's king, and ultimately, to crossing God. Divorce by her husband, the texts warn, would be the worst disaster that could ever befall a woman. And defiance of her husband's authority would condemn her to the eternal torment of hell (Florida, 1996, p. 210).

It is important to note that the Javanese language provides rich insights into Javanese *adat* on gender. Indeed, the Javanese speech level system is probably the most elaborate of its kind. In all speech interactions Javanese speakers must choose from among several distinct linguistic varieties which signal and assert the interlocutor's (one who takes part in dialogue or conversation) notions of relative status. While the Javanese identify these registers as polite, their politeness in fact often serves a political end (Smith-Hefner, 1988, p. 537). The Javanese language requires an individual to choose a speech code in relation to the relative status and/or familiarity of the other party. Although there are many different shades of politeness which can be indicated by the speech levels, they may be divided into two major distinctions (Geertz, 1960, p. 2249). The first, called *ngoko*, is the most basic, familiar level, the level first learned by the child from peers and siblings and used throughout life with close friends and younger persons or those of a lower social status. The second form is known as *kromo* and is used with higher status, older or unfamiliar persons. Unlike *ngoko*, *kromo* is learned through a relatively self-conscious process, often involving explicit instructions from parents and teachers. *Kromo* variants are slightly longer than their *ngoko* counterparts and should be delivered in a slower, more refined and careful manner (Smith-Hefner, 1988).

In particular, Javanese women are supposed to use a more deferential speech style in addressing their husbands compared to that of their husbands to them (Kartomihardjo, 1979, p. 63; Keeler, 1987, .p53; Koenjtjaraningrat, 1957: 89). The asymmetric pattern reflects that, in the Javanese *adat*, the status of a woman is ranked below that of her husband within the family. Moreover, the fact that traditionally marriages may be arranged and husbands may be considerably older than their wives reinforces this pattern. The pattern is reportedly most pronounced in the courtly (*priyayi*) areas of Central Java (Errington, 185, p. 53; Podjosoedarmo, 1968, p. 61). Prior research has provided evidence supporting this asymmetric pattern. For example, Smith-Hefner's (1988) ethnographic study found that women in East Javanese communities, both urban and rural, used more polite speech in addressing and referring to their husbands than husbands did with their wives. The study concluded that several aspects of woman's role within the family reinforce this asymmetric pattern. In particular, Javanese women are the ones who mostly typically serve men rather than vice versa, and so are most often the ones making polite invitations such as to eat or bathe. In addition, in the presence of their children, mothers frequently model polite speech by using the father as example in order to teach the children polite forms compared to the fathers (Smith-Hefner, 1988, p. 541).

The strong influence of *priyayi adat* is evident in contemporary Indonesia. Especially in relation to gender, the New Order State of Soeharto's regime (1966-1998) promoted the perception of Javanese gender-roles as the state gender ideology throughout Indonesia. Soeharto as the President was known as *Bapak Pembangunan* (the Father of Development). The President exercised his paternalistic authority as the father of the nation, providing guidance (*pembinaan*) and setting up the structure of the State as an expression of the natural authority of the male as head of the household (Robinson, 2009). Hence, the metaphor of the family was used to make the repressive forms of power that characterized the regime appear to be part of the natural order. The new order gender ideology copied Western development planners who have long promoted the importance of the nuclear family, women's role as housewife and mother, and men's role as head of the family (Blackwood, 1999). Many researchers have given attention to the Indonesian state's role in promoting the importance of motherhood and purveying the idea that women are primarily responsible for their children and their family's health, care and education (Djajadiningrat-Nieuwenhuis, 1987; Sears, 1996; Sullivan, 1983; Suryakusuma, 1996). Some scholars have labeled this state ideology *ibuism*, or "motherism" (the doctrine of motherhood). In the New Order ideology, women's social roles were based on their "biological nature," expressed as the concept of *Kodrat Wanita* (woman's nature). According to Tiwon (1996, p. 51), *Kodrat Wanita* means the "intrinsic nature of woman," and is prescribed as the true essence and destiny of women. In the New Order ideology, *Kodrat Wanita* suggested to women that a woman's social role was predestined by her biological capacities (Robinson, 2009, p. 10). This concept took its place in the state ideology as the "*azas kekeluargaan*" (family foundation).

With the model of the family as the basic concept of Soeharto's ideology in the New Order State, there were limits to the opportunities for women's social participation and political agency. In the New Order State, the metaphor of family was adopted as the model for authority relations within the State. The subordination of women to men was deemed a natural fact, other forms of social hierarchy were depicted in familial terms to guarantee social differences as a fact of nature (Robinson, 2009; Suryakusuma, 1996). This view of woman closely corresponds to the fundamentalist Islamic view on gender based on the patriarchal interpretation of Quran. As Blackburn (1999) noted, Islamic fundamentalism in Indonesia is one of the principal agents in the discourse of domesticity.

Women's emancipation in the New Order State was mostly focused on attaining women's rights in education, however despite inequality in political, economic and social domains. Every woman was constantly concerned about, and gave priority to, the need to be seen as a “good woman” or as respectable and true to her “inherent nature” (JICA, 1999; Siahaan, 2003). This meant that she had to be aware of the need and importance of motherhood, because this was held to be a key part of woman’s nature, basic status and character. Thus between 1965 and 1998, the State idealized women’s multiple roles as wives and mothers as being inherent and proper to women and that (given women's “natural” role in nurturing and servicing the family) any professional orientation must take second place. This “natural” family role was promoted in propaganda as the most significant role that a woman could play, and was glorified as the ideal picture of a “good” woman (Siahaan, 2003, p.11).

In the New Order State, women’s “ideal” role expanded to include her family, her local community and national development without any additional support facilities to support her in this expanded role. This meant that women’s choices became increasingly circumscribed by increased responsibilities and expectations (Siahaan, 2003, p.8). Therefore, women’s role in the public sphere was always located in the context of “family or community” rather than on “unnaturally” focusing on her own career needs. The New Order Propaganda defined women's primary role as being reproductive and community activities while men’s role was in productive activities such as career.

This strong influence of *Kodrat Wanita* ideology to Indonesian women was evident in the establishment two famous women’s organizations in 1975 (during the Soeharto era) where the official construction of womanhood was heavily reinforced. The first organization, *Dharma Wanita* (Women's Duty), was a large organization dominated by the wives of civil servants and of members of the Indonesian Armed Forces. The second organization, PKK (*Pembinaan Kesejahteraan Keluarga*, or Family Welfare Guardian), served as a bridge between the State and village women through which the official ideology was filtered and the government implemented its state development programs (Suryakusuma, 1996, p.101). These organizations were created to instill into the minds of women paradigms that emphasized domestic concerns rather than those of the public sphere. At their peak they had more than two million members across 65,000 villages in Indonesia (Suryakusuma, 1996). The activities of these organizations usually revolved around household chores such as cooking, embroidery and sewing. These activities reflected a commonly accepted notion that women were responsible for household activities. Female members were required to learn skills in accordance with what the government laid down or provided in terms of systems and facilities. Such expectations and pressure resulted in the domestication of women in their private world (Sunindyo, 1998; Suryakusuma, 1996).

In short, in Javanese, the idea of equality between men and women was, entirely alien. Moreover, individual men and women were always aware of the proper behaviors expected from them. It is clear that, based on these Javanese values, male behavior is associated with autonomy and dominance while female behavior with nurturance, affiliation, obedience, passiveness and humility. Thus, it is expected that in social interactions, Javanese men and women are more likely to exhibit differences in their judgments due to socialization under the Javanese *adat* on gender.

4.2.2. Gender in Minangkabau **Adat** *and Its Implications for Judgments*

The Minangkabau, also known as the Minangese, occupy the highlands of Western Sumatera that are known for the beauty of their alpine mountains and hills on which nestle houses with roof resembles the peaked hats of Minangkabau women. The Minangkabau is probably one of the largest matrilineal societies still in existence[4] (Wieringa, 1995). The major elements underlying matrilineal Minangkabau *adat*, among other things, are a set of rules of descent, inheritance including communal property and political succession (Wieringa, 1995). The main characteristics of the matrilineal Minangkabau *adat* are descent and inheritance are oriented around the mother and her daughters and sons; rice

[4] Descent systems are classified into bilateral and unilineal systems. The bilateral system, also known as non-unilineal or cognatic system, recognizes kinship ties equally through both males and females (Freedman, 1960, p. 82) p82. This system is found in the Javanese and Dayak ethnic groups in Indonesia. The unilineal system has two subcategories, namely, patrilineal and matrilineal systems. The patrilineal system recognizes kinship ties through males while the matrilineal one recognizes it through females (Loeb, 1933; Marzali, 2000; Schneider & Gough, 1961). An example of patrilineal society in Indonesia is the Batak ethnic group in North Sumatra.

farming and lifecycle ceremonies are organized by and through women and their brothers (Marzali, 2000, p. 3; Wiering, 1995).

In Minangkabau, a group of individuals in the same descent line call themself *dansanak*. Individuals recognizes kinship with those from the same maternal line, such as their mother's children, their mother's brothers and sisters, their grandmothers' brothers and sisters and the children of their mother's sisters. The smallest descent group and economic unit is the *paruik*, the people living in the typical Minangkabau house, the *rumah gadang* (the big house), a long house with two or more "horns," originally indicating the number of married women living there. The female head of such *parui* is called the *limpapeh*. No decision on the communal property of the *parui* could be made without the consent of the *limpapeh*. The next descent group is *kampuang* (village) where various *paruik* live together. A cluster of *kampuang* is called a *nagari*. The largest kinship group in Minangkabau is called *suku* (clans) (Marzali, 2000; Wieringa, 1995, p. 243).

Adat rules recognized two kinds of property relations. First, *harta pusaka*, also known as high inheritance, mainly of land and houses, fell under the collective ownership of the women of the matriclans and was inherited according to the matrilineal rules. Second, *harta pencarian*, also known as low inheritance, individually-owned property acquired by a man during his lifetime, which a father passes to his children. Eventually this type of property also became *pusaka*, as it too was inherited along matrilineal lines, that is, via the daughters of a man's sisters, especially if it were newly opened rice fields (Wieringa, 1995, p. 244).

It is important to note that, women in the matrilineal society are responsible for the children and adult males have the authority over the females and children (Schneider & Gough, 1961). Indeed, in traditional Minangkabau *adat*, all adult males, especially married males, hold "political and economic authority" of the females and children in their *kampuang* (Marzali, 2000, p. 4-5). These males are called *ninik-mamak*, while the females and children are called *kamanakan*. This political and economic authority of *ninik-mamak* is represented by the eldest and charismatic member of the descent line. In the *suku*, the holder of the authority is called *Penghulu Suku*. In the *kampuang*, the holder is called *Datuk Kampuang*. In the *rumah gadang*, the holder is called *Mamak*. By contrast, the husbands and fathers do not hold any authority over their wives and children. The, they are called *urang sumando*, males who marry female members of *suku*, *paruik* or *rumah* *gadang*. *Urang sumando* have authority over their own *kamanakan* in their *kampuang* (Marzali, 2000, p. 4-5).

Interestingly, the Minangkabau who adhere to a matrilineal system of kinship and inheritance are known as faithful followers of Islam. Indeed, Minangkabau land of West Sumatera is designated as "one of the most Islamized regions in Indonesia" (Abdullah 1966, p. 1). Islam was probably introduced into the animistic and partly Hinduized Minangkabau region around the beginning of the 16th century though it did not spread very fast. Well into the 18th century, Islam there was characterized by strong mystical influences. Rather than changing the regulations of *adat*, Islam provided a new system of meaning (Peacock, 1973). At first glance it seems paradoxical and surprising that the matrilineal society of Minangkabau, whose very base would seem to oppose Islam, is historically Indonesia's most dynamically Muslim region, the source of such movements as the Padri War, that is the conflict between the *Kaum Muda* (Young Group), the young Muslim reformers who wanted to purify the Islamic practices of the society, and the *Kaum Tua* (Old Group), those Muslims with strong indigenous non-Islamic influences. Minangkabau is also the homeland of the most influential Indonesian Muslim intellectuals, such as Haji Rasul and his son, Hamka (Peacock, 1973, p.107).

In general, the Minangkabau have proved that they are masters in reconciling *Sharia* and *adat*. Indeed, many Minangkabau do not see any contradiction between *adat* and religious values and dogmas. For Minangkabau, the *adat* and the *Sharia* belong together, constructing the specific identity of Minangkabau society (van Reenen, 1996). The connection between the two value systems is expressed in the saying "*adat* is based on *Sharia* and *Sharia* is based on the Quran." Thus, Islam in a sense legitimized the value of *adat*. Sometimes the words of the Prophet Muhammad (*hadits*) are quoted, "paradise is located beneath the soles of the feet of the mother", which is interpreted to mean that "physical and mental well-being is to be attained through respecting one's mother" (van Reenen, 1996, p. 5). Thus, it seems that Islam may provide Minangkabau women with new sources of power in domains outside the direct applicability of *adat*. By embracing modernist Islam and education, Minangkabau women have created for themselves new professional possibilities in the urban context (van Reenen, 1996).

In the old *adat* conception, women enjoy respect and high status. The ideal image of women is expressed in the title of *bundo kanduang*. Literally meaning mother of the womb or one's own mother, it does not refer to one's own biological mother. *Bundo Kanduang* is first and foremost the name of the wise, intelligent and fair queen-mother in the well-known Minangkabau myth Cindua Mato, as well as being an honorific title used for senior women (van Renen, 1996, p. 2). Although the extent to which women wielded power in this society is difficult to estimate, most ethnographers agree that they had considerable influence mainly due to their economic position, that is, women's power derived from their possession of the rice fields and their control over the income derive from them (van Renen, 1996). In particular, older women participate actively in family councils, aided by the fact that they usually included the mothers of the male lineage chiefs. As far as the process of decision making is concerned, it should be noted that women not only participated in the deliberations, they were also the ones who had to implement the decisions taken by unanimous consent. Men could only validate the decisions. Men, when in the village, divide their time between their sisters' and their spouse's houses, but spend most of the year away on outlying Minangkabau land (*rantau*), mainly as traders (van Renen, 1996).

It is clear that there is a balance in gender relations which is largely due to the existing kinship system. Minangkabau women hold strong trump cards in the form of matrilineal descent, matrilineal patterns of inheritance and matrilocality. In turn, men hold important social positions such as *ninik-mamak* (elders of the clans), and economically they have better opportunities than women to earn a cash income (van Renen, 1996, p.257).

There are clear indications that the strong position of Minangkabau women within kin groups provides them with a better starting position to profit from opportunities within the public domain. In the colonial times, Minangkabau was well known for its strong women's organizations and for its outspoken women although it is true that women had no formal roles in customary public institutions (Blackburn, 2001, p. 96). Moreover, in the earlier phase of independence it was revealed that Minangkabau women were better educated than their female counterparts elsewhere in Indonesia (Indonesian Statistics, 1989 as quoted in van Renen, 1996, p. 33).

As discussed earlier, the New Order government promoted Javanese gender-role perceptions, which are largely consistent with the fundamentalist Islamic view, as the state gender ideology throughout Indonesia. In contrast to the Minangkabau gender view, this ideology promoted the importance of the nuclear family, women's role as housewife and mother, and men's role as head of the family and justified it as the "natural" *Kodrat Wanita* (woman's nature) (Sullivan 1983; Djajadiningrat-Nieuwenhuis 1987; Sears, 1996; Tiwon, 1996; Wieringa 1996; Blackwood, 1999; Robinson, 2009). During the New Order Era, the Minangkabau were exposed to the government's gender ideology that is in such contrast to the Minangkabau *adat*. First, under the laws of the Indonesian state, husbands are empowered as heads of households. Second, the Indonesian Marriage Law of 1974 states that "the husband is the head of the family and the wife is the mother of the household." State economic policies and census work also recognized nuclear households as the primary household type. These twin dogmas about households and their male heads reached into rural villages not only through state education but also through a variety of other tactics (Blackwood, 1995). The shift in rural Minangkabau men's responsibilities from their sister's children to their own children reflects the influence of colonial and state ideology and modern education on Minangkabau conceptions of family.

However, Blackwood (1999) shows that despite the efforts of promoting the government's gender ideology, nuclear households in Minangkabau remain firmly invested with matrilineal ideology. This is because husbands do not assert claims to their wives' land nor to land that is redeemed through joint effort. Moreover, they also do not claim a right to the new houses that they help build with their earned income (Blackwood, 1999). Indeed, people in the village maintain that a new house belongs to the wife/daughter, whether or not a husband/father's income helped to build it. In addition, a wife has a right to her husband's income but the husband does not have the same right to his wife's income. In sum, women claim rights both to jointly built houses and to land that was gained with the husband's help (Blackwood, 1999).

Even in case of a husband providing the majority of household income, control remains within a matrilineal ideology that empowers women to appropriate land and resources to their matriline. Even if a father passes on land he purchased to a daughter, this inheritance practice does not instantiate patrilineality because a daughter keeps such land for her matriline (Blackwood, 1999). Thus, in general, these show the stronger influence of matrilineal *adat* in Minangkabau society compared to that of the state and fundamentalist Islam.

As a consequence, in the traditional gender roles of Minangkabau, the idea of equality between men and women is most likely to be accepted. Moreover, there is no clear differentiation of the proper behaviors expected from individual men and women. Recall that women are also expected to demonstrate wisdom, strength and leadership qualities, just like the men in their capacity as leaders such as *Penghulu* (head of the clan) or *Mamak* (head of the family) in Minangkabau. Thus, in their social interaction and professional work, Minangkabau men and women will most likely exhibit similarities in their judgments due to the relatively balanced gender-roles in their society.

4.2.3. Organizational Culture of Accounting Firms

Organizational culture is generally defined as the practices of an organization that relate directly to the shared values of the members making up an organizational unit, and core values that are resistant to change (Douglas et al., 2001; Pratt & Beaulieu, 1992). Hofstede et al.(1990) indicate that values are demonstrated in alternatives to behavior and demonstrate empirically that, while both values and practices are important, shared perceptions of daily practices are more significant in explaining differences across organizations. Consequently, an understanding of organizational culture must include an understanding of shared values as well as an understanding of the practices that manifest those values. Organizational culture is important because of its influences on job attributes such as motivation, behavior, performance, satisfaction and commitment (Smith & Hume, 2005).

Prior studies provide evidence of similarities in the organizational culture of accounting firms (Fogarty, 1992; Kosmala & Herrbach, 2006; Pratt & Beaulieu, 1992). These similarities are largely produced by two organizational practices, namely, selection and socialization (Andon et al., 2010; Patel, 2003, 2006; Patel & Milanta, 2011). Selection consists of recruitment and self-selection. Recruitment refers to the way in which outsiders are identified, screened and invited into the cultural unit. Self-selection refers to the process through which individuals make themselves available for recruitment by seeking and self-selecting firms with cultures that represent their personal values (Pratt &

Beaulieu, 1992; Patel & Milanta, 2011). Evidence supports the view that self-selection leads to the existence of similar perceptions and behaviors among professionals regardless of their gender. For example, in a review of economics literature on gender differences, Croson and Gneezy (2009) concluded that gender differences in risk preferences do not extend to managers and professional populations and suggested that this could be the result of selection that is characterized by the tendency of risk taking individuals to choose managerial positions. The authors also explained that, while fewer women select these positions, those who do choose them have similar risk preferences to men. Moreover, Andon et al.'s (2010) study using the Myers–Briggs Type Indicator (MBTI) to measure personality preferences found that accounting and non-accounting graduates seeking to enter the accounting profession share similar personality preferences in relation to a combined preference for thinking and judging. This means that similar to accounting graduates, non-accounting graduates seeking to enter the accounting profession are likely to prefer making decisions based on logic and impersonal analyses of cause and effect, and a planned, organized and decisive approach to their work.

Socialization, the second practice, refers to "the process by which individuals are molded by the society to which they seek full membership" (Fogarty, 1992, p. 130). Socialization aims to encourage the internalization of an organization's shared values and encompasses activities such as the development and use of language, customs, rituals and organizational procedures (Pratt & Beaulieu, 1992). Prior studies show that graduates entering accounting firms are socialized and disciplined, not only in terms of technical skills, but also in terms of conduct in a broad sense (e.g., Grey, 1998; Anderson-Gough et al., 2001). This conduct is often related to important notions such as being a professional accountant, time management and client service that have strong regulating effects on behaviors and attitudes (Anderson-Gough et al., 2001). Subtle ways of forming conduct are related to everyday social practices in which the notion of being a professional accountant is linked to and made equivalent to specific ways of talking, dressing, behaving and even feeling at the office (Grey, 1998). Thus, these disciplinary practices exercise powerful effects on trainees and create disciplined professionals, who tend to behave in accordance with the norms of the firm and the values of the profession (Anderson-Gough et al., 2001; Grey, 1998).

Importantly, accounting firms are known for their "up or out policy" or "sink or swim cultures" (Dambrin & Lambert, 2008; Kalbers & Cenker, 2008; Kumra & Vinnicombe, 2008; Mueller et al., 2011; Perera et al., 2003; Ponemon, 1992; Soeters & Schreuder, 1988). The up or out policy allows the retention of talented and suitable members as well as the timely dismissal of individuals considered unsuitable (Kumra & Vinnicombe, 2008). This policy socialized that suitable members are those with behavioral traits that are consistent with the typical common male stereotypes, namely, self-confidence, proactive , aggressive, strong and competitive (Anderson-Gough et al, 2005; Dambrin & Lambert, 2008; Kumra & Vinnicombe, 2008; Mueller et al., 2011). Moreover, the small minority of members that reach the goal of becoming a partner are those who are perceived to be strongly consistent with masculine stereotypes (Kosmala et al, 2006; Kumra & Vinnicombe, 2008; Mueller et al., 2011). This suggests that the socialization process in accounting firms diminishes perceptual and behavioral differences among their members, including gender differences (Smith & Roberts, 2000; Powell, 2000; Anderson-Gough et al, 2005; Kumra & Vinnicombe, 2008; Mueller et al., 2011). As a consequence, those professional accountants who survive and succeed in the accounting profession are males and females with similar masculine stereotypes, namely, self-confidence, aggressive, strong and competitive (Pratt & Beaulieu, 1992; Grey, 1998; Dambrin & Lambert, 2008).

4.3. Hypothesis Formulation

4.3.1. Auditor-gender on Auditors' Judgments

Prior research in the Anglo-American context has revealed that males and females use different strategies in processing information, a phenomenon known as the selectivity hypothesis (Meyers-Levy, 1986; Meyers-Levy & Maheswaran, 1991; Meyers-Levy & Sternthal, 1991). This hypothesis suggests that females are more likely to engage in comprehensive or detailed information processing strategies by incorporating more of the available evidential cues into their judgments. Males, on the other hand, are more likely to employ simplified and heuristic information processing strategies to eliminate what they believe to be irrelevant cues and they tend to focus on a limited set of salient pieces of information that are relatively easy and quick to process (Chung & Monroe, 1998; Chung & Monroe, 2001; Gold et al., 2009; Graham et al., 2002; Meyers-Levy, 1986; Meyers-Levy & Sternthal, 1991; O'Donnell & Johnson, 2001).

This selectivity hypothesis may lead to gender differences in risk aversion between males and females. Risk taking refers to the acceptance of judgments that could have negative consequences (Byrnes et al. 1999). Empirical research mostly in the US context shows that females are more risk averse in their judgments and behaviors than males (Barua et al., 2010; Byrnes et al., 1999; Charness & Gneezy, 2011; Chin & Chi, 2008; Croson & Gneezy, 2009; Eckel & Grossman, 2002, 2008; Gold et al., 2009; Graham et al., 2002; Schmitt et al., 2008).

In relation to this study's focus, that is, audit judgments after receiving unverified client explanations, findings of prior studies based on the selectivity hypothesis and risk aversion seem to suggest that unverified client-provided explanations are likely to influence female professional accountants to a lesser extent than male professional accountants for at least two reasons. First, because of their greater need for detailed and comprehensive information, female professional accountants are likely to be more reluctant than male professional accountants to change their initial audit judgments based solely on client-provided explanations that have not been subjected to verification testing (Gold et al., 2009). Second, female professional accountants are more likely to adhere to their initial judgments than men, because accepting client explanations of this nature reflects a form of risky behavior.

However, it was shown earlier that relevant social, political and economic factors also need to be taken into account in examining the complex and multifaceted concept of gender influence on accounting. The important and lasting gender socialization takes place in the family and continues in society including school and work place (Eagly & Steffen, 1984; Hofstede, 1980; Patel, 2006; Smith & Rogers, 2000). In particular, it is suggested that gender socialization in Islamic countries is likely is to be more pronounced compared to that in Anglo-American countries. The predominant interpretation of *Sharia* on "*al jins al-bashari*," that rigidly views women's main role as mother and that men are superior and thus responsible for women's welfare, supports the common gender stereotypes that women are dependent, passive, weak and submissive while men are the opposite (Othman, 2006; Anwar & Rumminger, 2007; Mir-Hosseini, 2009). These gender roles are further reinforced by the socialization process including parental expectations and marriage norms in most Islamic societies. Given the context of Islamic countries, it is expected that males are more confident and aggressive in defending their opinions and judgments. Thus, in relation to unverified client explanations regarding inventory balance that are initially perceived to be overstated, males are more likely to be confident with and adhere to their initial judgments compared to their female counterparts who are more likely to conform to the client's justifications.

However, in relation to accounting students, this paper suggests that the *adat* on gender are most likely to have a stronger influence on gender-based judgments of Javanese and Minangkabau accounting students. The differences between Javanese and Minangkabau gender views, as discussed earlier, are more likely to cause differences in judgments of male and female from these respective ethnic groups. Previous discussion shows that the Javanese *adat* view is that "the male area is the outside world of politics and power, of work, position, prestige and hierarchy; the female centers on the home, the children, education and care" (Mulder, 1994, p. 62). This gender-roles perception is due to the Javanese *adat* that associates males with autonomy and dominance and females with nurturance, affiliation, obedience, passiveness and humility. Thus, Javanese male students are more likely to be confident with their initial judgments after receiving unverified client explanations compared to their female counterparts. In contrast, given the matrilineal *adat* of Minangkabau society that views women as the central focus of kinship and social relations, the concept of equality between men and women is readily accepted since there is no clear differentiation associated with prescribed behaviors based on gender roles. Given the Minangkabau *adat* that socialized both male and female students to be comparably confident, desicive and independent, Minangkabau male and female students are more likely to adhere to their initial judgments despite client justifications. Thus, it is proposed that Javanese females are more likely to be influenced by client-provided explanations compared to their male counterparts whereas Minangkabau males and females are expected to be equally influenced by client-provided explanations, as reflected in the following hypotheses.

H_{a1} Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts.

Ha_2 There is no difference in relation to the influence of client-provided explanations on Minangkabau male and female students.

In contrast, in relation to judgments of professional accountants, this paper suggests that the socialization of organizational culture in accounting firms experienced by professional accountants is more likely to have a stronger influence on their judgments compared to that of *adat*. It is suggested that gender differences are more likely to diminish as individuals experience occupational socialization within the work environment (Patel, 2006; Powell, 1999; Smith & Rogers, 2000). As previously discussed, the socialization process in accounting firms strongly promotes the superiority of masculine characteristics, namely, decisive, confident and competitive. This emphasis, in turn, leads female professional accountants to deny their female identity and adopt male characteristics to survive and succeed in their careers (Pratt & Beaulieu, 1992; Grey, 1998; Dambrin & Lambert, 2008; Kumra & Vinnicombe, 2008; Mueller et al., 2011). This suggests that socialization in organizational culture in accounting firms diminishes gender differences between Javanese male and female professional accountants and reinforces similarities between Minangkabau male and female professional accountants. As a consequence, both male and female professional accountants in Javanese and Minangkabau societies are more likely to be confident with and adhere to their initial judgments after receiving a client's unverified explanation. Thus, the following hypothesis is formulated:

H_{2a} There is no difference in relation to the influence of client-provided explanations on male and female professional accountants of Javanese as well as Minangkabau.

4.3.2. Client-gender on Auditors' Judgments

Prior research has indicated that gender reflects a social category, which individuals incorporate into their information processing and decision making activities (for example, Cameron & Trope, 2004; Norton et al., 2004). To facilitate and accelerate decision-making, individuals tend to engage in the process of stereotyping to place another person in a group of easily recognized members. Once they have stereotyped a target person as a member of a particular social category, such as male or female, decision makers often make implicitly biased assumptions about the target person's behaviors, skills and capabilities. Norms of the social category are automatically associated with the assumed member, even when the particular situation does not provide corresponding indications (Agars, 2004; Dunning & Sherman, 1997; Gawronski et al., 2003). Similarly, Seguino (2011) suggests that embedded norms and stereotypes shape everyday behaviors and decision making. Individuals make decision regarding others based on an internal gender ranking rule, influenced by external social conditions and the norms and stereotypes embedded in the culture. That ranking rule is a reflection of an underlying set of power relations that are an enactment of the degree of gender stratification a society will tolerate.

Gender stereotypes are based on the gender-role perceptions that prevail in a society, particularly men's higher status role as breadwinner and women's lower status role of homemaker. Thus, from those activities that men and women commonly perform in their typical social roles, individuals make inferences as to the personal qualities that are apparently required to undertake those activities (Eagly & Karau, 2002; Eagly & Steffen, 1984). In particular, this stereotyping leads to prejudice that usually puts females at a disadvantage in professional life. In general, prejudice can arise from the relations that people perceive between the characteristics of members of a social group and the requirements of the social roles that group members occupy or aspire to occupy (Eagly & Karau, 2002). Indeed, across a wide variety of settings and contexts, females are presumed to be less competent than males and less worthy of assuming leadership or top-level positions in organizations (Anderson-Gough et al., 2005; Dambrin & Lambert, 2008; Kumra & Vinnicombe, 2008; Mueller et al., 2011). As a consequence, this prejudice interferes with a female's ability to gain authority and exercise influence as professionals, as well as negatively affecting their performance evaluation (Carli & Eagly, 2001; Heilman & Haynes, 2005).

Given the focus of auditors' education and training in making objective and unbiased decisions, normatively they should not consider client gender a diagnostic quality when forming audit related judgments. However, research has demonstrated that auditors are susceptible to non-diagnostic cues, one of which is client gender (Glover, 1997; Hackenbrack, 1992; Nelson & Tan, 2005; Wilks & Zimbelman, 2004). For example, a study on auditors' peer evaluations found that auditors' judgments are sensitive to gender, so that auditors expect hypothetical audit seniors described as female to be less likely to succeed in their work than male seniors (Anderson et al., 1994). Furthermore, audit managers with a low tolerance for ambiguity assess an audit senior's performance as lower when the senior is female as compared to male (Johnson et al., 1998). In an audit judgment study, Gold et al. (2009) provided evidence of a general male-client favorability bias among auditors which was indicated by auditors' recommended write-down amount for a male client is lower than that for a female client. This suggests that, in evaluating unverified client explanations in audit inquiries, individuals in general are less likely to be influenced by female, relative to male, client explanations.

However, consistent with the earlier discussion, this paper suggests that there are differences judgments between students and professional accountants due to different types of socialization they have experienced. For the Javanese students' judgments, the Javanese *adat* that view female as inferior compared to their male counterparts are more likely to hinder females' ability to gain authority and exercise influence as professionals. Thus, explanations from a female client representative are less likely to influence Javanese students' judgments in general. In contrast, given the more balanced gender-role perceptions of Minangkabau matrilineal *adat*, explanations from a female client representative are more likely to have equal influence on Minangkabau students in general. Thus, these differences lead to the following hypotheses:

H_{1b1} Javanese students are likely to be less influenced by client-provided explanations offered by a female, relative to a male, client representative.

H_{1b2} Minangkabau students are more likely to be equally influenced by client-provided explanations offered by a female, and a male client representative.

For the Javanese professional accountant' judgments, this paper suggests that socialization in accounting firms is more likely to diminish the influences of gender stereotypes in society (Powell, 1999; Smith & Rogers, 2000). Indeed, as mentioned earlier, socialization in professional organizations tends to emphasize the superiority of male characteristics such as being more independent, self-confident, aggressive and strong. This socialization encourages females to adopt these characteristics and abandon female characteristics in order to survive and succeed in their careers (Anderson-Gough et al., 2005; Dambrin & Lambert, 2008; Kumra & Vinnicombe, 2008; Mueller et al., 2011; Powell, 1999). Empirical evidence shows that females at top-level positions in organizations demonstrate typical male stereotypes (Powell, Butterfield, & Parent, 2002; Schein, 2001). This suggests that occupational socialization is more likely to balance these females' ability to gain authority and exercise influence with that of their male counterparts. Moreover, this paper suggests that socialization in accounting firms is more likely to reinforce the more balanced gender stereotypes in Minangkabau. Thus, unverified client explanations from a female client are more likely to be equally influential compared to that of a male client, as reflected in the following hypothesis:

H_{2b} Javanese as well as Minangkabau auditors are more likely to be equally influenced by client-provided explanations offered by a female and a male client representative.

4.3.3. Interaction of Auditor-gender and Client-gender on Auditors' Judgments

It is also suggested that client gender has different influences on male and female professional accountants. Consistent with the previous discussion, the common perceptions of men's breadwinner and women's homemaker roles are based on prescriptive gender norms that dictate the behaviors that are appropriate for women and men (Eagly & Steffen, 1984; Heilman & Parks-Stamm, 2007). The norms prescribe that men should be agentic, that is, independent, assertive and decisive, whereas women should be communal, that is, unselfish, friendly and concerned with others. These norms point out that there is a considerable overlap between the male characteristics and professional role, especially the leadership role. Masculine attributes such as ambition and taking the initiative correspond to characteristics which are commonly expected from effective leaders as well. As a consequence, an incongruity between the female gender role and the leadership role is likely to be perceived (Eagly & Karau, 2002; Wolfram et al., 2007).

Moreover, individuals who violate these gender prescriptions experience negative reactions from others as evaluators. In particular, prior research has demonstrated that women who behave in ways perceived to be in contradiction to the female stereotypic prescriptions are sanctioned and disliked by others (Heilman & Okimoto, 2007; Heilman et al., 2004; Parks-Stamm et al., 2008). These sanctions take the form of social rejection and personally directed negativity and have detrimental consequences for career-relevant organizational rewards (Heilman et al., 2004). Moreover, it is not necessary for women to actually behave counter-normatively to induce social penalties; the mere knowledge that a woman has been successful in a male domain produces inferences that she has engaged in stereotype-violating behaviors, resulting in social penalties (Heilman & Okimoto, 2007; Heilman et al., 2004; Parks-Stamm et al., 2008). Many of this research has focused its examination on women who are successful in the organizational role of manager, a role that is typically seen as male gender-typed (Powell, Butterfield, & Parent, 2002; Schein, 2001). A number of study have found that when research participants were told that only female managers had been successful with no additional behavioral information supplied, they characterized those managers as lacking the prescribed favorable interpersonal qualities related to communality and as possessing instead traits such as selfishness, deceitfulness, deviousness, coldness and manipulativeness (Heilman et al., 2004). There have also been indications that female managers who are reported to be successful are decidedly less liked than their male counterparts and less preferred as bosses (Heilman et al., 2004).

In particular, a woman who succeeds in a traditionally male role instigates social comparison processes for women that lead to negative reactions from other women, such as to cast her as an interpersonally hostile and unlikable norm violator, not a "real" woman, and therefore irrelevant to women's self-evaluation (Heilman et al., 2004; Heilman & Okimoto, 2007). Indeed, research shows that females penalize a successful woman in a managerial position as a self-protective strategy in the face of a threatening social comparison. This social comparison with a highly successful woman should be more threatening for women than for men, for whom the threat can be readily deflected. It is suggested that a strategy for women to avoid the ego-deflating consequences of an upward social comparison is by enforcing prescriptive norms through penalization functions (Miller & Prentice, 1996; Heilman et al., 2004). Indeed, it has been found that individuals can maintain positive self-views in the presence of similar views, only threatening others if they are conceived of in a way that accentuates their dissimilarity, thereby excluding them as standards of comparison (Miller & Prentice, 1996; Heilman et al., 2004).

Prior research has supported that females may be harsher judges toward females than male judges. For example, in reviews of economic grant proposals to the US National Science Foundation, female reviewers tend to rate female-authored papers consistently lower than male reviewers (Broder, 1993). The author's suggested explanation is that female judges want to be considered as fair when assessing other women so that their credibility will not be doubted; as a consequence, some female evaluators judge other women quite harshly (Broder, 1993). Another potential explanation is that some women do not want a woman they deem to be weakly qualified to get ahead in the workplace, as this may reflect badly on all women (Broder, 1993). In a study on the accounting firm recruitment process, Harding et al. (1993) showed that, compared to male recruiters, female recruiters tended to offer significantly higher salaries to male applicants than to female applicants. Similarly, Gold et al., (2009) proved that female auditors were more influenced by a male client and less influenced by a female client in their judgments than male auditors. Ben-Ner et al. (2004) concluded that women give significantly less to other women than they do to men or to persons of unknown gender. This suggests that a description of a successful female CFO as the client representative is more likely to result in a more negative reaction from other women than men. Thus, unverified explanations from a male client representative are more likely to be favored than those of a female client representative.

However, consistent with the previous discussion on the influence of *adat* on students' judgments, this paper suggests that male-favorable influence is more likely to be greater for Javanese students' judgments than those of Minangkabau students. Indeed, given the Javanese *adat* that clearly differentiates behavioral traits and social roles for men and women, a successful woman such as a female CFO is more likely to be considered as an interpersonally hostile and unlikable norm violator by female than by male students among the Javanese. In contrast, given the matrilineal *adat* of Minangkabau that empowers women through its norms of kinship and social relations, a successful woman is less likely to be considered disapprovingly by females and male students in Minangkabau. Thus, unverified explanations from a male client are more likely to be favored by Javanese female students than their male counterparts. By contrast, unverified explanations from a female or a male client are more likely to be considered equally by Minangkabau male and female students. These conclusions are reflected in the following hypotheses:

H_{1c1} For the Javanese, the male-favorable influence of client-provided explanations is more likely to be greater for female than male students.

H_{1c2} For the Minangkabau, the male-favorable influence of client-provided explanations is more likely to be equal for female and male students.

Moreover, consistent with the discussion on the stronger influences of socialization in accounting firms and the "up or out policy" that leads to the adoption of masculine characteristics by females in firms, a successful woman is less likely to be considered a norm violator by the Javanese female and male professional accountants. Likewise, for Minangkabau auditors, socialization in accounting firms is more likely to reinforce the more balanced gender view in their society. Thus, a successful woman is less likely to be considered disapprovingly by females and male auditors in Minangkabau. These ideas suggest that unverified explanations from a female or a male client representative are more likely to be regarded equally by both Javanese and Minangkabau female and male professional accountants, as reflected in the following hypothesis:

H_{2c} The male-favorable influence of client-provided explanations is more likely to be equal for Javanese as well as Minangkabau female and male auditors.

4.4. Research Methods

4.4.1. Design and Instrument

Data for this study were collected using a survey questionnaire administered to professional accountants and final year accounting students in Jakarta and Padang, Indonesia. The questionnaire used an inventory obsolete scenario to measure professional accountants' judgments. In the scenario, participants were asked to assume the role of an audit manager of a large accounting firm who was in charge of the audit of a computer manufacturer, called MicroClone. The participants' task was to evaluate whether client-provided explanations would resolve a potential inventory overvaluation problem that had been detected in the company's finished goods inventory. In particular, the participants were asked to apply their professional judgments by indicating the amount by which the client should write down the potentially overvalued inventory.

The questionnaire was developed and tested in a number of steps. It was first developed in English. The English version was administered to four accounting academics and professional accountants. After incorporating feedback from this step, the questionnaire was then translated into the Indonesian language by the researcher who is fluent both in English and Indonesian. The monetary amounts in the scenario were also adjusted to the equivalent Indonesian rupiah (IDR). To ensure consistency of meaning with the original questionnaire, the translated version was then back-translated by an accounting academic with professional accounting experience, who was also fluent in English and Indonesian. The result of the back-translation indicated that the Indonesian version was consistent with the original scenario.

To enhance readability and understandability, the Indonesian version of the questionnaires was administered to four Indonesian professional accountants and accounting academics with a request to complete the questionnaires and to provide suggestions regarding their understandability. Based on the suggestions and extensive discussions with two of the professional accountants, the questionnaire was further improved for readability and understandability. After incorporating the suggestions and comments, the researchers again conducted a thorough examination of the questionnaire. The questionnaire was also pretested with nineteen postgraduate accounting students in Indonesia.

4.4.2. Case Study Scenario and Client-gender Treatment

The use of a scenario was chosen for this study because accounting researchers have suggested that a scenario approach provides a more realistic context for participants (Cohen et al., 1995; Cooper & Morgan, 2008; Reidenbach & Robin, 1990). It allows insight into the contextual dependencies on which professional accountant judgments may lie. Another benefit of a scenario is that it can be modified to focus on the specific interest of a study (Patel, 2006).

The scenario used in this study has been tested for readability and validity in prior accounting studies. It is suggested that the use of previously tested scenarios enhances scope, depth, validity and credibility of research (Patel 2006, p. 98). The inventory obsolete scenario was based on Gold et al.'s (2009) instrument. The scenario was originally based on a classroom case "MicroClone, Inc." (Kistler & Strickland, 1997) later modified and applied in subsequent research related to client inquiries in auditing by Nöteberg and Hunton (2005) and Gold et al. (2009).

Recall that, in the scenario, participants were asked to assume the role of an audit manager of a large accounting firm who was in charge of the audit of a computer manufacturer, MicroClone. Specifically, participants were informed that the client's inventory appeared to be overvalued by about IDR 4 billion (equivalent to USD 400,000; where USD 1 = IDR 10,000) because of potential obsolescence of one product line, "4th generation computers." The scenario indicated that this product line should be written down by IDR 4 billion (as an initial judgment). After reading the background information, participants were asked to state their initial judgment of the amount by which the client should write down the potentially obsolete inventory.

Participants were then informed that the client's CFO was going to address the obsolescence issue. The scenario described that the client's CFO possessed a CPA and master's degree in accounting and had 15 years of accounting experience. The participants were provided with five emails from the client's CFO, each defending full valuation of the product line. To avoid order effects, the order of the five explanations was randomized per participant.

Gender treatment was conducted by developing two versions of scenarios by mentioning the CFO's name, which either indicated a male ("Budi") or a female ("Ani") client. This client-gender manipulation is an adaptation of the Goldberg (1968) experimental paradigm in which participants judge identical scenarios under different gender assumptions. In a typical Goldberg-paradigm study, one treatment group is led to believe that the message source is male, while the other group is told that the source is female.

After reviewing the unverified explanations, participants were asked to revise their initial recommendation by proposing a final write-down amount. At the end of the questionnaire, the participants needed to answer the following question: "Was the CFO male or female?" as a manipulation check question. Finally, participants were asked to respond to follow-up questions and demographic questions.

4.4.3. Dependent Variable

The dependent variable metric indicated the participants' final recommended write-down amount for the potentially obsolete inventory, adjusted for their initial judgment amount. Differences between the initial and final write-down amounts revealed the influence of the client explanation and, thus, larger differences indicated greater judgment changes toward the client's advocated position.

The initial judgment measurement asked: "Given the available information and realizing that you have yet to receive a response from Budi (Ani), if you had to make a recommendation at this point, by how much would you recommend MicroClone write down their 4th generation inventory (between IDR 4 billion and 0)?" The post-explanation measure asked: "Having read Budi's (Ani's) position on this issue, by how much would you recommend MicroClone write down their 4^{th} generation inventory (between IDR 4 billion and 0)?"

4.4.4. Participants and Procedure

To ensure equivalence of samples for this study, the instruments were administered to professional accountants with at least one year's working experience in accounting firms in Jakarta and Padang. Moreover, the instruments were also administered to third year undergraduate accounting students in state universities in Jakarta and Padang. By so doing, this study ensured that the students who participated in this study are those who have completed relevant subjects such as Intermediate Financial Accounting 1 and 2 as well as Auditing 1.

Moreover, each of two versions of the instruments was administrated randomly to every male or female participant. Thus, each of participants only completed one version of the instrument. This procedure allowed a comparable number of female and male participants to complete each version of the instrument developed in this study.

A total of 300 questionnaires administered to the third and final year accounting students in Jakarta and Padang (West Sumatera) resulted in 241 returned questionnaires. Among these returned questionnaires, 39 are excluded from further analysis due to incomplete response. Moreover, another 200 questionnaires administered to professional accountants in Jakarta and Padang resulted in 110 returned questionnaires. Among these returned questionnaires six were excluded from further analysis due to incomplete response.

A separate survey is also conducted wherein three audit managers, who did not participate in the experiment, participated as members of an expert panel. They read the same case used in the experiment, except that the materials always referred to the client as "the CFO" with no mention of gender. The mean of the expert panel judgment difference before and after reading client explanations is IDR 1.33 billion (equivalent to USD 133,000).

4.5. Results and Discussion

4.5.1. Manipulation Check

Recall that in the final section of the questionnaire, participants were asked to answer a question "Was the CFO male or female?" as a manipulation check. Incorrect responses represented 6 percent of professional accountants and 10 percent of accounting students. There were no significant differences between results that included and excluded participants who answered this manipulation check question incorrectly. Thus, the results reported in this paper reflect the inclusion of these participants.

4.5.2. Descriptive Statistics

A total of 202 accounting students' responses, for a response rate of 67.3 percent, were used that consist of 69 male and 133 female accounting students with an average age of 21 years old. In addition, a total of 104 professional accountants' responses were also used, for a response rate of 52 percent, consisting of 58 male and 46 female professional accountants with an average age of 28 years old and 4 years professional experience. The demographic details of the participants are presented in Table 4.1.

Preliminary analyses showed that the students' risk preference is not significantly influenced by gender ($F = 1.84$, $p = 0.18$). Similarly, professional accountants' risk preference is not significantly influenced by gender ($F = 1.05$, $p = 0.31$). Descriptive statistics related to the dependent variable (differences between initial and final recommended write-down value for the potentially obsolete inventory) and sample sizes are shown on Table 4.2.

Table 4.1. Demographic Data

Ethnic Groups	Gender	Students		Auditors					
		N	Mean Age	N	Mean Age	Mean Experience	Experience		
							<3	3-5	≥6
Javanese	Male	15	21.13	34	28.88	5.69	10	12	11
	Female	35	20.43	20	25.31	3.81	13	4	4
	Subtotal	50	21.06	54	27.79	4.95	23	16	15
Minangkabau	Male	54	22.15	24	29.54	4.44	16	4	4
	Female	98	21.70	26	28.15	3.71	17	5	4
	Subtotal	152	21.87	50	28.12	4.17	33	9	8
Total		202		104					

Table 4.2 shows that male students indicated a relatively small difference between their initial and final judgment of IDR 0.94 billion when the client was female, and IDR0.95 billion when the client was male. In contrast, female students deviated more than the male students in their judgment when the client was a female, as they recommended a final write-down that was IDR0.99 billion lower than their initial recommendations. When the client was male, female students recommended a final write-down of IDR 0.92 billion lower than the initial recommendations. These results might indicate that the female students in this study adjusted their initially proposed amount more than the male students when the client was a female, and less than the male students when the client was a male.

Table 4.2. Descriptive Statistics—Recommended Write-Down Amount Means (Standard Deviations) and [Sample Sizes]

Client Gender	Student Gender			Auditor Gender		
	Male	**Female**	**Overall**	**Male**	**Female**	**Overall**
Male	0.95 (1.33) [33]	0.92 (1.49) [64]	0.93 (1.43) [97]	1.48 (1.86) [31]	1.48 (1.78) [21]	1.48 (1.81) [52]
Female	0.94 (1.78) [36]	0.99 (1.34) [69]	0.98 (1.50) [105]	0.89 (1.53) [27]	0.78 (1.36) [25]	0.84 (1.43) [52]
Overall	0.95 (1.57) [69]	0.98 (1.50) [105]	0.96 (1.46) [202]	1.21 (1.73) [58]	1.10 (1.58) [46]	1.16 (1.66) [104]

Table 4.2 also shows that male professional accountants indicated a relatively small difference between their initial and final judgment of IDR 0.89 billion when the client was female, and IDR 1.48 billion when the client was male. Similarly, female professional accountants indicated a relatively small difference between their initial and final judgment of IDR 0.78 billion when the client was female, and IDR 1.48 billion when the client was male. These results may indicate that both male and female professional accountants in this study adjusted their initially proposed amount more when the client was a male, and less when the client was a female. Table 4.2 indicates equivalent differences between initial and final write-down recommendations between male students (IDR 0.95 billion) and female students (IDR 0.98 billion). Similarly, in relation to professional accountants' judgments, Table 4.2 also indicates a relatively similar recommended write-down amount for male professional accountants (IDR 1.21 billion) and female professional accountants (IDR 1.10 billion).

4.5.3. Gender-based Judgments of Javanese and Minangkabau Students

A total of 50 responses from Javanese students were used for analysis, consisting of 15 male and 35 female accounting students with an average age of 21 years old. The recommended write down-amount mean (standard deviations) is 1.53 (1.51). Preliminary analysis showed that Javanese students' write-down recommendation is not significantly influenced by risk preference ($F = 1.28$, $p = 0.29$), perceptions of client ethnicities ($F = 1.37$, $p = 0.26$), perceptions of client's competence ($F = 1.04$; $p = 0.45$) or perceptions on gender stereotypes ($F = 1.80$, $p = 0.72$).

In addition, a total of 106 Minangkabau students' responses were used for this study with an average age of 21 years old. The mean (standard deviations) of the recommended write-down amount is 0.76 (1.40). Preliminary analysis showed that Minangkabau students' write-down recommendation is not significantly influenced by risk preference ($F = 1.43$, $p = 0.16$), perceptions of client ethnicities ($F = 1.83$, $p = 0.14$), perceptions of client age ($F = 0.51$; $p = 0.77$), perceptions of client's competence ($F = 0.57$; $p = 0.95$) or perceptions of gender stereotypes ($F = 0.84$, $p = 0.71$). Moreover, analysis showed that the students' risk preference is not significantly influenced by their gender ($F = 2.20$, $p = 0.14$).

Analysis showed that the students' write-down recommendation is significantly influenced by their region ($F = 10.83$, $p = 0.001$). Thus, it is justifiable to conduct separate analyses on judgments by Javanese and Minangkabau students. In relation to risk preference, the analyses showed that risk preference is not significantly different between these two ethnic groups ($F = 1.18$; $p = 0.28$).

Descriptive statistics related to the dependent variable (recommended write-down amount for the potentially obsolete inventory) and sample sizes are shown on Table 4.3. For the Javanese students' judgments, male students indicated a relatively small difference between their initial and final judgment of IDR 0.56 billion when the client was female, and a relatively large difference of IDR 1.17 billion when the client was male. On the other hand, female students deviated more than male professional accountants from their judgment when the client was female, as they recommended a final write-down that was IDR 1.91 billion lower than their initial recommendations. When the client was male, female students recommended a final write-down of IDR1.79 billion lower than their initial recommendations. These results may indicate that the Javanese female students in this study adjusted their initially proposed amount more than the male students.

For Minangkabau students' judgments, Table 4.2 indicates that female students demonstrated a relatively small difference between their initial and final judgment of IDR 0.55 billion when the client was male, and a relatively large difference of IDR 0.72 billion when the client was female. On the other hand, male students deviated more in their judgment when the client was female as they recommended a final write-down that was IDR 1.07 billion lower than their initial recommendations. When the client was male, the male students recommended a final write-down of IDR 0.90 billion lower than their initial recommendations. These results may indicate that the female students in this study adjusted their initially proposed amount less than the male students. Next, Table 4.3 presents results of inferential statistical analyses using ANOVA and Kruskal-Wallis nonparametric tests.

Three pairs of hypotheses were formulated in relation to Javanese and Minangkabau students' judgments. The first pair, H_{1a1} and H_{1a2}, were developed in relation to the main effect of students' gender on judgments of Javanese and Minangkabau students participating in this study. In particular, H_{1a1} predicts that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. Consistent with the prediction, Table 4.3 indicates that Javanese female students proposed a relatively larger decrease in their final write-down (IDR 1.84 billion) than their male counterparts (IDR 0.80 billion). The ANOVA results in Table 4.3 show that the main effect for students-gender is statistically significant ($F = 4.59$, $p = 0.04$). Similarly, the Kruskal-Wallis test shows that the distribution of write-down recommendations is not the same across Javanese male and female students ($p = 0.02$). Therefore, the results support H_{1a1}.

Table 4.3. Statistical Analyses of Dependent Variable Responses—Students (Dependent Variable = Inventory Write-Down Recommendations)

	Javanese:						Minangkabau:					
	ANOVA					K-W	ANOVA					K-W
	d.f	S.S	M.S.	F	p	(p)	d.f	S.S	M.S.	F	p	(p)
SG	1	9.91	9.91	4.59	0.037*	0.02*	1	4.32	4.32	2.20	0.14	0.21
CG	1	0.62	0.62	0.29	0.59	0.57	1	0.98	0.98	0.50	0.48	0.42
SG x CG	1	1.35	1.35	0.63	0.43		1	0.001	0.001	0.001	0.80	
Error Term	46	99.32	2.16				148	290.33	1.96			
Total	50						152					

Note: * significant at 0.05 level (two-tailed)

H_{1a2} predicts that there is no difference in relation to the influence of client-provided explanations on Minangkabau male and female students. Consistent with the prediction, Table 4.3 indicates that Minangkabau female students proposed relatively small difference in their write-down recommendations (IDR 0.64 billion) compared to their male counterparts (IDR 0.98 billion). The ANOVA results in Table 4.3 show that the main effect of Minangkabau students' gender was not statistically significant ($F = 2.20$; $p =$

0.14). Similarly, the Kruskal-Wallis test shows that the distribution of write-down recommendations is the same across Minangkabau male and female students ($p = 0.21$). Therefore, the results support H_{1a2}.

The second pair, H_{1b1} and H_{1b2}, were developed in relation to the main effect of client gender on judgments of Javanese and Minangkabau students. H_{1b1} predicts that Javanese students will be less influenced by client-provided explanations offered by a female, relative to a male, client representative. Consistently, Table 4.2 indicates that Javanese students in general proposed a relatively lower decrease in their final write-down amount when the client was female (IDR 1.42 billion), and a relatively large decrease when the client was male (IDR1.64 billion). However, the ANOVA results in Table 4.3 show that the main effect for client-gender is not statistically significant. Results of Kruskal-Wallis tests also showed that distribution of write-down recommendations was the same across Javanese male and female students ($p = 0.57$). Therefore, the results do not support H_{1b1}.

H_{1b2} predicts that Minangkabau students are more likely to be equally influenced by client-provided explanations offered by a female and a male client representative. Table 4.2 indicates that Minangkabau students proposed a relatively larger decrease in their final write-down amount when the client was female (IDR 0.84 billion), and a relatively smaller decrease when the client was male (IDR 0.68 billion). The ANOVA results in Table 4.3 show that the main effect for client-gender is not statistically significant ($F = 0.50$; $p = 0.48$). Results of Kruskal-Wallis tests also showed that distribution of write-down recommendations was the same across Minangkabau male and female students ($p = 0.42$). Therefore, the results support H_{1b2}.

The last pair, H_{1c1} and H_{1c2} ,were developed in relation to the interaction effect of student gender and client gender on judgments of Javanese and Minangkabau students. In particular, H_{1c1} predicts that for the Javanese, the male-favorable influence of client-provided explanations is more likely to be greater for female than male students. Consistent with the prediction, Table 4.2 indicates that the Javanese male students proposed a relatively larger decrease in their judgment when the client was male (IDR 1.17 billion) compared to when the client was female (IDR 0.56 billion). In contrast, Javanese female students proposed a relatively larger decrease in their judgment when the client was female (IDR 1.91 billion) compared to when the client was male (IDR 1.79 billion). However, the ANOVA results in Table 4.3 indicate that the two-way interaction between student gender and client gender is not statistically significant ($F = 0.63$; $p = 0.43$). Therefore, the results do not support H_{1c1}.

H_{1c2} predicts that for the Minangkabau, the male-favorable influence of client-provided explanations is likely to be equal for female and male students. Table 4.2 shows that Minangkabau male students proposed a relatively comparable decrease in their judgment when the client was female (IDR 1.07 billion) compared to when the client was male (IDR 0.90 billion). Similarly, the Minangkabau female students proposed a relatively comparable decrease in their judgment when the client was female (IDR 0.72 billion) compared to when the client was male (IDR 0.55 billion). The ANOVA results in Table 4.3 indicate that the two-way interaction between student-gender and client-gender does not have a statistically significant influence on judgments of Minangkabau students ($F = 0.001$; $p = 0.80$). Therefore, the results support H_{1c2}.

Table 4.4. Judgments Comparison between Students and Expert Panel (IDR 1.33 billion)

Student Gender	Client Gender	Javanese Students			Minangkabau Students		
		Mean	t-value	p	Mean	t-value	p
Male	Male	1.17	-0.30	0.77	0.90	-1.66	0.10
Male	Female	0.56	-3.67	0.001**	1.07	-0.68	0.50
Female	Male	1.79	1.00	0.33	0.55	-3.10	0.003**
Female	Female	1.91	1.30	0.21	0.72	-2.75	0.007*
Male		0.80	-2.31	0.03*	0.98	-1.07	0.29
Female		1.84	1.15	0.26	0.64	-2.93	0.004**

Note: *Significant at 0.05 level; **significant at 0.01 level (two-tailed)

Furthermore, the means of Javanese and Minangkabau students' write-down recommendations were compared to that of the expert panel's judgment (IDR 1.33 billion) as shown on Table 4.4. As indicated, the means of Javanese male students' judgments when receiving an explanation from a female client representative (IDR 0.56 billion) and in general (IDR 0.80 billion) are significantly different from that of the expert panel. In addition, the means of Minangkabau female students' judgments when receiving an explanation from a male or a female client representative (IDR 0.55 billion and IDR 0.72

billion, respectively) and in general (IDR 0.64 billion) are significantly different from that of the expert panel.

4.5.4. Gender-based Judgments of Javanese and Minangkabau Professional Accountants

A total of 54 responses from Javanese professional accountants were used, consist of 34 male and 20 female, with an average age of 27 years old and 4 years professional experience. The recommended write-down amount mean (standard deviations) is 1.35 (1.79). Among the participants, 32 professional accountants work at Big Four accounting firms and 22 professional accountants work at non-Big Four firms. Analysis reveals that the recommended write-down amount is not significantly influenced by the type of audit firm ($F = 0.25$, $p = 0.78$). Preliminary analysis showed that risk preference is not significantly influenced by gender ($F = 0.15$, $p = 0.70$). The analysis also shows that the recommended write-down amount is not significantly influenced by risk preference ($F = 0.47$, $p = 0.91$), professional accountants' experience ($F = 1.20$, $p = 0.31$), professional accountants' ethnicities ($F = 1.12$, $p = 0.36$), perceptions of client ethnicities ($F = 2.57$, $p = 0.07$), perceptions of client's competence ($F = 1.44$; $p = 1.17$), perceptions of client's age ($F = 0.45$; $p = 0.77$), or perceptions on gender stereotypes ($F = 1.16$, $p = 0.35$).

In addition, a total of 50 Minangkabau professional accountants' responses were also used for analyses with an average age of 28 years old and 4 years' professional experience. The recommended write-down amount mean (standard deviations) is 0.95 (1.49). Preliminary analysis showed that the professional accountants' risk preference is not significantly influenced by their gender ($F = 1.20$, $p = 0.28$). The analysis also shows that the difference in recommended write-down amounts is not significantly influenced by risk preference ($F = 1.17$, $p = 0.34$), experience ($F = 1.71$, $p = 0.10$), perceptions of client ethnicities ($F = 0.71$, $p = 0.55$), perceptions of client age ($F = 1.43$; $p = 0.24$), perceptions of client's competence ($F = 1.49$; $p = 0.16$), perceptions of gender stereotypes ($F = 1.29$, $p = 0.26$), professional accountants' ethnicity ($F = 0.91$, $p = 0.50$), or professional accountants' age ($F = 0.76$, $p = 0.71$). Overall analyses showed that the professional accountants' recommended write-down amount is not significantly influenced by region ($F = 1.11$, $p = 0.34$). In relation to risk preference between Javanese and Minangkabau, analysis shows that risk preference is not significantly different ($F = 0.02$; $p = 0.98$).

Table 4.5. Descriptive Statistics—Auditors' Write-Down Recommendations Means (Standard Deviations) and [Sample Sizes]

Client Gender	Javanese Auditors Male	Female	Overall	Minangkabau Auditors Male	Female	Overall
Male	1.81 (1.89) [21]	1.11 (1.76) [9]	1.60 (1.85) [30]	0.80 (1.69) [10]	1.75 (1.82) [12]	0.32 (1.78) [22]
Female	1.0 (1.64) [13]	1.09 (1.87) [11]	1.04 (1.71) [24]	0.79 (1.48) [14]	0.54 (0.75) [14]	0.66 (1.16) [28]
Overall	1.50 (1.81) [34]	1.10 (1.77) [20]	1.35 (1.79) [54]	0.79 (1.53) [24]	1.10 (1.46) [26]	0.95 (1.49) [50]

Note: Means are in billion rupiah (equivalent to hundred thousand dollars)

Descriptive statistics related to the dependent variable (recommended write-down amount for the potentially obsolete inventory) and sample sizes are shown in Table 4.5. In relation to the Javanese professional accountants' judgments, female professional accountants indicated a relatively similar difference between their initial and final judgment of IDR 1.09 billion when the client was female, and IDR 1.11 billion when the client was male. Male professional accountants also indicated a relatively similar difference in their judgment when the client was male (IDR 1.81 billion) and when the client was female (IDR 1 billion). These results may indicate that there is no significant difference in judgments between Javanese male and female professional accountants in this study.

In relation to Minangkabau professional accountants, Table 4.5 shows that male professional accountants indicated a relatively equal difference between their initial and final judgment when the client was male (IDR 0.80 billion) and when the client was female (IDR 0.79 billion). On the other hand, the female professional accountants deviated more in their judgment when the client was male as they recommended a final write-down that was IDR 1.75 billion lower than their initial recommendations. When the client was female, the male professional accountants recommended a final write-down of IDR 0.54 billion, lower than the initial recommendations. These results may indicate that the female professional accountants in this study adjusted their initially proposed amount by less than the male professional accountants. Table 4.6 presents results of inferential statistical analyses using ANOVA and Kruskal-Wallis nonparametric tests.

Table 4.6. Statistical Analyses of Dependent Variable Responses—Auditors (Dependent Variable = Inventory Write-Down Recommendations)

	Javanese: ANOVA d.f	S.S	M.S.	F	p	K-W (p)	Minangkabau: ANOVA d.f	S.S	M.S.	F	p	K-W (p)
Auditor Gender (SG)	1	1.13	1.13	0.35	0.56	0.79	1	1.50	1.50	0.71	0.40	0.16
Client Gender (CG)	1	2.11	2.11	0.65	0.43	0.14	1	4.63	4.63	2.19	0.15	0.36
SG x CG	1	1.91	1.91	0.59	0.45		1	4.42	4.42	2.09	0.16	
Error Term	50	163.04	3.26				46	97.44	2.12			
Total	54						50					

Recall that H_{2a} predicts that there is no difference in relation to the influence of client-provided explanations on Javanese as well as Minangkabau male and female professional accountants. Consistent with that prediction, Table 4.5 indicates that Javanese male and female professional accountants proposed a relatively equal decrease in their final write-down (IDR 1.50 billion and IDR 1.10 billion, respectively). Similarly, Table 4.5 indicates that Minangkabau female professional accountants proposed a relatively similar decrease in their final write-down with their male counterparts (IDR 1.10 billion and IDR 0.79 billion). ANOVA results in Table 4.6 show that the main effect for auditor-gender is not statistically significant both for Javanese professional accountants' ($F = 0.35$, $p = 0.56$) and Minangkabau professional accountants' judgments ($F = 0.71$, $p = 0.40$). The results of Kruskal-Wallis tests also showed that the distribution of write-down recommendations was the same across Javanese ($p = 0.79$) as well as Minangkabau ($p = 0.16$) male and female professional accountants. Therefore, the results support H_{2a}.

Moreover, H_{2b} predicts that client gender will have a significant effect on the judgments of Javanese professional accountants participating in this study. In particular, it is predicted that Javanese as well as Minangkabau professional accountants are more likely to be equally influenced by client-provided explanations offered by a female and a male client representative. Consistent with H_{2b}, Table 4.5 indicates that Javanese professional accountants, in general, proposed a relatively lower decrease in their final write-down amount when the client was female (IDR 1.04 billion), and a relatively large decrease when the client was male (IDR 1.60 billion). Moreover, Table 4.5 indicates that Minangkabau professional accountants proposed a relatively larger decrease in their final write-down amount when the client was female (IDR 0.66 billion), and a relatively smaller decrease when the client was male (IDR 0.32 billion). Results of ANOVA in Table 4.6 show that the effect of client-gender does not have a statistically significant influence on Javanese ($F = 0.65$, $p = 0.43$) and Minangkau auditors' judgments ($F = 2.19$; $p = 0.15$). The results of Kruskal-Wallis tests also showed that distribution of write-down recommendations was the same across Javanese ($p = 0.14$) as well as Minangkabau ($p = 0.36$) male and female professional accountants. Therefore, the results support H_{2b}.

Further, H_{2c} predicts the interaction of client-gender and auditor-gender on the judgments of Javanese and Minangkabau female and male professional accountants. In particular, it is predicted that the male-favorable influence of client-provided explanations is more likely to be equal for Javanese as well as for Minangkabau female and male professional accountants. Consistent with the prediction, Table 4.5 indicates that the Javanese male professional accountants proposed a relatively larger adjustment in their judgment when the client was male (IDR 1.81 billion) compared to when the client was female (IDR 1 billion). In contrast, Javanese female professional accountants proposed a relatively equal adjustment in their judgment when the client was female (IDR 1.09 billion) and when the client was male (IDR 1.11 billion). Table 4.5 also shows that Minangkabau male professional accountants proposed a relatively equal decrease in their judgment when the client was female (IDR 0.79 billion) compared to when the client was male (IDR 0.80 billion). Similarly, the Minangkabau female professional accountants proposed a relatively equal decrease in their judgments when the client was female (IDR 0.54 billion) compared to when the client was male (IDR 1.75 billion). Results of ANOVA in Table 4.6 shows that the interaction effect of auditor-gender and client-gender does not have a statistically significant influence on judgments of Javanese ($F = 0.59$, $p = 0.45$) and Minangkabau auditors ($F = 2.09$; $p = 0.16$). Therefore, the results support H_{2C}.

Furthermore, the means of Javanese and Minangkabau professional accountants' write-down recommendations were compared to that of the expert panel's judgment (IDR 1.33 billion) as shown on Table 4.7. As indicated, the means of Javanese male and female professional accountants' judgments (IDR 1.50 billion and IDR 1.10 billion, respectively) are not significantly different from that of the expert panel. In addition, both the Minangkabau male and female professional accountants' judgments (IDR 0.79 billion and IDR 1.10 billion, respectively) are not significantly different from that of the expert panel.

Table 4.7. Judgments Comparison between Professional Accountants and Expert Panel

No.	Groups	Auditors' judgment	t-value	p-value	Compared with the experts' judgment (IDR1.33 billion)
1.	Male auditors	0.79	-1.72	0.09	Not significantly different
2.	Female auditors	1.10	-0.82	0.42	Not Significantly different

4.5.5. Additional Analysis: The Influence of Work Experience

Although not the focus of the study, this paper conducts additional analysis to examine the influence of experience on professional accountants' proposed write-down adjustments. Indeed, some long-standing research on judgment and decision making examines the influence of experience on professional accountants' judgments (see a review by Nelson & Tan, 2005; Trotman et al., 2011). It is suggested that experience provides an opportunity for the acquisition of relevant technical knowledge which is essential for improving judgments (Libby 1995). Importantly, prior research has provided evidence that professional accountants with more experience are usually able to exhibit superior judgments compared to those with less experience, including in negotiation (Brown & Johnstone, 2009; Brown & Wright, 2008; Fu et al., 2011; Thompson, 1990; Trotman et al., 2009).

For example, focusing on task-specific experience, Fu et al. (2011) and Brown and Johnstone (2009) examined the influence of negotiation experience on negotiation outcomes. Using samples of audit partners and managers, both studies found that auditors with lower negotiation experience tend to be less confident in their judgments and use a more concessionary strategy when facing an aggressive client, and thus attained less conservative outcomes that were consistent with the client's preference, and vice versa (Brown & Johnstone, 2009; Fu et al., 2011). Moreover, focusing on general working experience, Trotman et al. (2009) examined the influence of experience on pre-negotiation planning judgments. Using a sample of audit managers and partners, the study found that auditors with greater general audit experience plan more demanding initial positions, plan to make fewer concessions, expect to achieve final outcomes that are more favorable to them, and are less likely to utilize the negotiation tactic of bid high/concede later.

For this additional analysis, this paper examines whether there are differences in judgments among professional accountants from three different categories of working experience, namely, less than 3 years, 3 to 5 years, and 6 years or more. Results of ANOVA in Table 4.8 show that work experience has a statistically significant influence on judgments of professional accountants in general (F = 3.65, p = 0.029) and specifically on judgments of Javanese professional accountants (F = 3.68, p = 0.032), although not on judgments of Minangkabau professional accountants (F = 2.995; p = 0.60). Results of the Kruskal-Wallis test also support those of the ANOVA test by showing that distribution of write-down recommendations was different across all professional accountants (p = 0.024) and Javanese professional accountants (p = 0.024) with different lengths of working experience[5] (see Table 4.8). The results provide additional insights into the complex and multidimensional nature of professional accountants' judgments.

Table 4.8. Results of The Influence of Work Experience on Professional Accountants' Judgments

Subjects	Experience	N	ANOVA			Non-parametric
			Mean (s.d)	Levene Stat	Results	
1: All auditors	<3 years (1) 3–5 years (2) ≥6 years (3)	56 25 23	1.06 (0.21) 1.88 (1.76) 0.70 (1.43)	p = 0.136	F = 3.650 p = 0.029*	K-W test p = 0.024*
2: Auditors-Javanese	<3 years (1) 3–5 years (2) ≥6 years (3)	23 16 15	1.68 (1.81) 1.88 (1.86) 0.40 (1.12)	p = 0.000	F = 3.68 p = 0.032*	K-W test p = 0.029*
3: Auditors-Minang-kabau	<3 years (1) 3–5 years (2) ≥6 years (3)	33 9 8	0.62 (1.22) 1.89 (1.76) 1.25 (1.83)	p = 0.044	F = 2.995 p = 0.60	K-W test p = 0.081

Note: * significant at the 0.05 level (two-tailed)

[5] A different categorization of work experience was also used, namely, 1-4 years' and more than 4 years' working experience. Results of the ANOVA and Kruskal-Wallis tests show that the influence of work experience is not significant on judgments of Javanese and Minangkabau professional accountants.

4.6. Conclusions

The main objective of this paper, using Indonesia as a case study, is to reject the simplistic assumption of homogeneity in values and judgments of accountants within and between Islamic countries. In order to achieve the objective, this study focuses on significant within-country differences in judgments between two important ethnic groups in Indonesia, the Javanese and the Minangkabau. In particular, this study investigates the influence of auditor-gender and client-gender on judgments of accounting students and professional accountants with regard to client-provided explanations on a potentially obsolete inventory account during audit.

This paper contributes to the literature by invoking unique aspects of Islamic influence with specific reference to differences in gender roles between the Javanese and the Minangkabau in examining students' judgments. The focus of the Javanese is on hierarchy and "woman's nature" (*Kodrat Wanita*). This indicates male domination of the outside world of politics and work while females were confined to domestic activities, obedience and passiveness. The idea of gender equality was largely alien among the Javanese, so that it is expected that Javanese male and female students are more likely to exhibit differences in their judgments with respect to client-provided explanations. In contrast, the Minangkabau emphasize women as the central focus of inheritance and kinship. Women enjoy respect and high status, and participate as actively in decision making as males. The idea of gender equality is more readily accepted in Minangkabau, such that Minangkabau male and female students are more likely to exhibit similarities in their judgments with respect to client-provided explanations. Some major findings of this paper are as follows. First, the findings show that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. In contrast, this paper finds that there is no difference in relation to the influence of client-provided explanations between Minangkabau male and female students. Thus, the findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. Second, by focusing on the competing influence of the organizational culture of accounting firms on judgments of professional accountants, the findings show no differences in judgments of Javanese as well as Minangkabau male and female professional accountants with respect to client-provided explanations on the potentially obsolete inventory balance. Thus, the findings show that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants. These findings show that future research needs to invoke broader and more critical perspectives to further investigate the complex issues related to gender and accounting judgments.

The insights provided in this study have implications on gender and accounting judgment research. The findings of this paper with respect to accounting students have implications for accounting education within Indonesia. Given that the global standard-setters' objective is to ensure comparability of financial information, an understanding of factors that result in differences in professional judgments of accountants and future accountants is essential. It is also important that various contextual and individual factors, such as gender-based bias, be examined in accounting curricula. Accounting educators may incorporate discussions with students regarding the consequences gender-based bias for accounting staff, accounting firms, and the business world in general. Further, findings with respect to professional accountants have implications for the strength of organizational culture, and thus may benefit accounting firms in areas such as training design and audit team assignment.

The results of this paper should be interpreted in light of several limitations. The sample of Javanese and Minangkabau professional accountants and accounting students selected for this paper may not be representative of all Indonesian professional accountants or accounting students. Moreover, despite attempts to make the scenarios as realistic as possible, they may not fully depict "real-life situations." Future research may examine gender-based judgments among other ethnic groups in a given country, in which this topic is underexplored. It is acknowledged that the research sample is relatively small and the sample of professional accountants is limited to lower and medium ranks in audit firms. Thus, it is recommended that this study be extended to professional accountants at higher ranks. Moreover, this study did not test the effect of task characteristics such as the perceived complexity of the judgments investigated. Future research may control for these factors.

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Chapter 5: Conclusions

5.1. Introduction

The aim of this thesis has been to critically examine various aspects of the global convergence of financial reporting in Indonesia by incorporating the influence of social, political and economic factors on accounting and convergence. This thesis contributes to international accounting literature by examining issues related to convergence including its promotion of principles-based standards and professional accountants' judgments that may hinder the achievement of the global standard-setters' objective. This thesis has three objectives, as follows:

1. to holistically examine the influence of relevant contextual factors, namely, social, political and economic factors on global convergence in Indonesia;
2. to critically examine professional accountants' preferences for the application of principles-based versus rules-based standards in Indonesia; and
3. to examine within-country differences in judgments by focusing on the influence of auditor-gender and client-gender on accounting students' and professional accountants' judgments with respect to client-provided explanations on the potentially obsolete inventory balance in audit.

Paper 1 (Chapter 2) addresses the first objective by developing a holistic theoretical framework by incorporating external and domestic pressures that affect convergence, with a particular focus on Islam, the forces of globalization, conflict of interest and power dependence, and Indonesia's internal environment. This paper has shown that reliance on narrowly-focused approaches such as simplistic quantification and broad categorization tend to limit richer understanding of contextual influences on convergence in a country and issues related to future acceptance and development of convergence.

Paper 2 (Chapter 3) addresses the second objective of the thesis by showing that professional accountants in Indonesia demonstrate a stronger preference for a rules-based rather than a principles-based approach in interpreting and applying global accounting standards. This paper provides evidence to reject the global standards-setters' simplistic assumption that professional accountants in all countries prefer the application of principled-based standards.

Finally, Paper 3 (Chapter 4) addresses the third objective of this thesis by examining differences in gender-based judgments by accounting students and professional accountants of ethnics Javanese and Minangkabau with respect to client-provided explanations on a potentially obsolete inventory balance in audit. Specifically, this paper provides evidence to show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. Moreover, this paper shows that the strength of organizational culture in accounting firms diminished differences in gender-based judgments among professional accountants in Indonesia.

By addressing and examining these objectives through three separate papers, this thesis aims to make original contributions to accounting literature. Global convergence and its promotion of professional judgments have been increasingly recognized as important, often controversial, topics in international accounting (Chand et al., 2011; Chand & Patel, 2008, 2011; Chand et al., 2010; Dimitropoulos et al., 2013; Ding et al., 2007; Heidhues & Patel, 2011, 2012a; Karampinis & Hevas, 2011; McAnally et al., 2010; Patel, 2004, 2006; Tsipouridou & Spathis, 2012; Tyrrall et al., 2007). Despite the growing number of studies examining various issues related to convergence, prior studies have largely overlooked the rigorous examination of these topics in Islamic countries. This thesis focused specifically on Indonesia, an Islamic country with its own unique contextual environment. Importantly, convergence and professional accountants' judgments have not been rigorously examined in Indonesia, affirming the need to examine these issues in Indonesia.

The remainder of this chapter is organized as follows. Section 5.2 summarizes this thesis and the three research papers presented in it. Section 5.3 outlines some implications of this research. Section 5.4 concludes by reviewing the limitations of the thesis and providing suggestions for future studies.

5.2. Summaries, Implications, and Contributions of Individual Research Projects

5.2.1. Paper 1: Contextual Factors Influencing Global Convergence of Financial Reporting: The Case of Indonesia

The objective of this paper is to provide a holistic and critical examination of the contextual influences on global convergence in Indonesia. This paper makes theoretical contributions to accounting literature by developing a holistic theoretical framework that incorporate external and domestic pressures, with a particular focus on Islam, the forces of globalization, conflict of interest and power dependence, as well as Indonesia's internal environment. Data for this paper were collected using semi-structured interviews with eight senior accounting academics and sixteen senior professional accountants in Indonesia.

The findings of this paper show that the holistic theoretical framework developed and in-depth interview data used in this paper provide a deeper and richer understanding of the relationships between external pressures (*tekanan dari luar*), domestic tensions, conflict of interest and power dependence with respect to the global convergence process in Indonesia. Some important findings of this paper are as follows. First, external pressures (*tekanan dari luar*) such as the forces of globalization as well as conflict of interest and power dependence were influential in this rush toward global convergence in Indonesia. This is demonstrated in the important influence of the World Bank and the IMF in relation to convergence in Indonesia due to the aid conditionalities they imposed as part of their reform policies after the Asian financial crisis of 1997-1998.

Second, the findings show that Islam poses challenges towards global convergence in Indonesia. This is evident in the use of *Sharia* Financial Accounting Standards for financial reporting by Islamic banks in Indonesia. The *Sharia* standards used to facilitate the unique characteristics of IFIs such as the banned of interest (*riba*) and the importance of *zakat* payment which is inconsistent with IFRS.

Third, despite governmental support for convergence, powerful actors in Indonesia who feel threatened by convergence, with its increasing promotion of transparency and fair value measurement, often use their power to protect their interest by intervening and manipulating the application of global accounting standards. Moreover, the Javanese emphasis on harmony within hierarchy (*rukun*) and conflict avoidance support the use of compromise to resolve conflicts between global accounting standards and important interests leading to “de jure” but not necessarily “de facto” convergence.

Fourth, the paper also reveals major issues faced by the development of convergence in Indonesia that are largely due to the lack of alignment between relevant Indonesian contextual factors and the Anglo-American values underlying convergence. For example, given the importance of SOEs, FOBs, and SMEs in Indonesian economy, concerns have been raised regarding the usefulness and relevance of convergence to Indonesia. This is especially related to the implications raised by those entities about “crony capitalism,” related-party transactions, “harmony within hierarchy,” and secrecy of financial information. Moreover, “crony capitalism” remains a serious problem in Indonesia and Javanese emphasis on *rukun* (harmony within hierarchy) and *gotong royong* (mutual assistance) exacerbate this problem. These major issues are further corroborated by professional accountants’ greater preference for the legalistic approach, differences in quality of audit services provided by the Big Four accounting firms which raise issues of “auditor shopping,” lobbying efforts in respect to the application of global standards and weak enforcement mechanisms in Indonesia. As such, the findings of this paper raise concerns about the potential to achieve the primary objective of global standards-setters, namely, comparability of financial information both within and across countries.

Finally, this paper also makes a methodological contribution to the literature by comparing the use of researchers’ judgments with qualitative-data-analysis software in analyzing interview materials. Findings of this paper show that, compared to the reliance on electronic search functions of qualitative-data-analysis software, the use of researchers’ judgments provides additional insights which the software systems cannot.

This paper makes several contributions to international accounting literature and practice. First, this paper develops a holistic theoretical framework to examine the complex and multidimensional relationships between relevant contextual factors and global convergence, incorporating external and domestic pressures as well as conflict of interest and power dependence. This theoretical framework has provided richer insights into the application of global convergence in the unique context of Indonesia which is crucial for our understanding of the effects and consequences of global convergence. Moreover, the application of this holistic theoretical framework in the Indonesian context provides additional understanding on opposition to and acceptance of convergence in Indonesia. Given the importance of the acceptance of convergence, the theoretical framework and the results provided from the Indonesian perspective may also be taken into account by global standard setters when deciding on potential strategies and changes to enhance the acceptance of convergence. Furthermore, the Indonesian context has shown that the dominant values in a given context may influence the application of global accounting standards despite efforts to promote convergence by government and professional bodies, and thus may influence and challenge the success of the ongoing convergence process. Finally, the findings contribute to international accounting research by providing further evidence of the importance both of integrating broader perspectives and of taking power and conflict into account.

This paper's findings have implications for global convergence, specifically in countries with strong Islamic traditions. Given the obstacles associated with convergence in Indonesia, the findings are of relevant to stakeholders in countries that plan for global convergence of financial reporting. The theoretical framework and findings provided from Indonesian perspectives reported on in this paper may also be taken into account by national and international standards-setters when deciding on potential strategies and changes intended to enhance the acceptance of the convergence.

5.2.2. Paper 2: "Professional Accountants' Preferences for the Application of Principles-Based versus Rules-Based Standards in Indonesia"

The objective of this paper is to critically examine professional accountants' preferences for principles-based versus rules-based standards in Indonesia. Its main purpose is to challenge the global standards-setters' implicit assumption that professional accountants in all countries prefer the principles-based approach in interpreting and applying accounting standards. This topic is important due to continuing debates on Anglo-American biases of global convergence which are highlighted by the claimed superiority of Anglo-American accounting values, principles and practices such as principles-based standards, "substance over form" approach and professional accountants' judgments.

In contrast to prior studies that largely relied on an hypothetico-deductive framework of quantitative research approach, this paper uses both quantitative and qualitative research approaches in examining professional accountants' preferences. This paper develops its theoretical framework by drawing from multidisciplinary literature such as history, politics, sociology, anthropology and psychology. In particular, this paper formulates a hypothesis that professional accountants in Indonesia are more likely to demonstrate a greater preference for rules-based standards compared to principles-based ones. Moreover, focusing on an important and relevant personality variable, the Construal of Self, this paper formulates another hypothesis that professional accountants in Indonesia with a stronger interdependent than independent Construal of Self are more likely to demonstrate a greater preference for the rules-based standards. To test the hypotheses, data were collected from survey questionnaires completed by 71 professional accountants from Big Four accounting firms in Indonesia. The main part of the questionnaire comprised five questions eliciting participants' preferences on the application of accounting standards. Question 1 elicited participants' general preferences by asking whether the principles-based or the rules-based standards are most suitable for Indonesia. Questions 2 to 5 elicited participants' preferences between uncertainty expressions (the principles-based standards) and numerical bright-line criteria (the rules-based standards) in the application of global accounting standards. In particular, these questions contained important uncertainty expressions, namely, "major part," "substantially," "significant influence" and "control." The uncertainty expressions were selected from three different global standards, namely, IAS 17 on Leases, IAS 28 on Investment in Associates and IFRS 3 on Business Combination, that were adopted in Indonesian Financial Accounting Standards. Furthermore, in order to show the limitations of strong reliance on hypothetico-deductive framework, semi-structured interviews were also carried out with 24 experts on convergence by asking their opinions in respect of the promotion of principles-based standards and accountants' professional judgments by global convergence.

Comparison of results from quantitative and qualitative research approaches provides evidence for the limitations of the hypothetico-deductive framework. In particular, the paper's findings show distinctly that strong reliance on the hypothetico-deductive framework largely failed to demonstrate a consistent preference for the rules-based standards in Indonesia, and thus may lead to contradictory findings and ambiguous conclusions. Findings from the hypothetico-deductive framework show a significant preference for rules-based approach only in respect of standard for Leases. While for the general application of financial accounting standards and the application of standards for Investment in Associates and Business Combination, the results largely failed to show a significant preference for rules-based standards. However, the results of the qualitative approach show disparities from those of the quantitative approach. In particular, results from the in-depth interviews provide evidence that professional accountants in Indonesia have realized that there is a rush toward global convergence along with the promotion of principles-based standards and accountants' professional judgments. In an ideal situation, professional accountants in Indonesia agree with the application of principles-based standards and feel they have no choice but to adopt this type of standards in their work. However, in reality, when it comes to their current practices and application of specific standards, professional accountants in Indonesia still prefer the application of the rules-based approach. The results also provide criticisms on the complexity and the use of arbitrary judgments in applying the principles-based standards. In turn, the results highlight questions with respect to reliability and comparability of financial information under convergence. Furthermore, the interview results support the notions that convergence is biased by emphasizing the interests of large accounting firms and multinational enterprises, and thus it largely promotes the Anglo-American interest and hegemony across countries. Thus, the findings challenge the simplistic assumption that professional accountants in all countries have a preference for the principles-based approach in interpreting and applying accounting standards.

This paper makes several contributions to international accounting research. First, it provides evidence that professional accountants in Indonesia show a greater preference for rules-based standards. The findings challenge the global-standards setters' simplistic assumption that professional accountants in all countries prefer the application of principles-based standards. The preferences for rules-based standards in Indonesia raise concerns for the global standards-setters' objective of comparability within and across countries. Moreover, the findings may provide a challenge to the assumption that convergence can be achieved easily within a country setting. The insights provided by this paper are important to global standards-setters who may consider reviewing standards, principles and guidelines that may result in resistance instead of acceptance and support.

This chapter also makes a methodological contribution to international accounting research by drawing insights on contextual factors from various disciplines such as history, politics, sociology and anthropology, and invoking measures from other disciplines such as psychology. By placing emphasis on the broader perspective, this paper provides a better understanding of the complexity and dynamic of contextual influences on the preferences and judgments of professional accountants. This paper also contributes to the literature by using both quantitative and qualitative research approaches in its examination. Importantly, findings of this paper highlight the limitation of placing strong reliance on the so-called reliable hypothetico-deductive framework in examining complex and multifaceted issues such as professional accountants' judgments with regard to the preferences.

The findings of this paper have distinct implications for the convergence. The continuing discussion on the claimed superiority of principles-based standards challenges the acceptance and future development of global accounting standards and convergence. The paper's insights have implications for international accounting research and practices, as well as international and national standards-setters. The lack of support for the technical specificities of global accounting standards may create increasing opposition toward better acceptance of convergence. Moreover, insights from this paper have implications for accounting firms in designing training programs and accounting education that will make future professional accountants familiar with and not hesitant in exercising professional judgments. This is especially important for the achievement of the global-standard setters' main objective of comparability of information.

5.2.3 Paper 3: "Gender-Based Auditors' Judgments in Indonesia"

The main objective of this paper is to examine within-country differences in judgments by focusing on the influence of auditor-gender and client-gender on judgments of accounting students and professional accountants with respect to client-provided explanations on a potentially obsolete inventory balance in audit. This paper contributes to accounting research by responding to the call for more accounting research on issues related to gender in Islamic countries. Moreover, this paper also contributes to the literature by questioning the simplistic assumption of homogeneity in values and judgments of accountants across and within Islamic countries that has largely dominated previous accounting studies.

Using a survey questionnaire distributed to 202 final year undergraduate accounting students, the main findings of this paper show that Javanese female students are more likely to be influenced by client-provided explanations compared to their male counterparts. In contrast, the findings show no differences in judgments between Minangkabau male and female students. Thus, these findings show that homogeneity in values and judgments of accounting students cannot be assumed within an Islamic country such as Indonesia. Moreover, based on responses from 104 professional accountants, the findings provide support for the competing influence of organizational culture of accounting firms on professional accountants' judgments. In particular, the findings show no differences in judgments between male and female professional accountants in respect to client-provided explanations, applicable to both the Javanese and the Minangkabau ethnic groups. Thus, the findings show that the strength of organizational culture in accounting firms overrides differences in gender-based judgments among professional accountants.

This paper makes several contributions to international accounting research. First, this paper contributes to the literature by including both professional accountants and accounting students in its examination. In contrast to professional accountants, accounting students have generally not been subjected to various issues of professional judgments in workplace. Furthermore, students have largely not been molded by the strong forces of organizational culture. As such, it is more likely that there are differences in judgments between professional accountants and students that warrant examination. Second, this paper provides evidence of within-country differences in judgments between Javanese male and female accounting students in relation to client-provided explanations during audit. These findings provide support to reject more narrowly-focused approaches such as the simplistic assumption of homogeneity in values and judgments of accountants, including accounting students, within and across Islamic countries that have largely dominated literature in the Islamic context (Askary & Jackling, 2004; Gambling & Karim, 1986; Hamid et al., 1993; Sulaiman & Willett, 2003). Third, the findings provide evidence of the strong influence of organizational culture in accounting firms on professional accountants' judgments and that this influence overrides differences in gender-based judgments among them professional accountants. Fourth, the paper provides insights into some of the factors influencing judgments of accountants both present and future. Given the global standards-setters' objective to ensure comparability within and across countries, an understanding of factors that results in differences in judgments is particularly important.

This chapter further makes a methodological contribution to international accounting research by emphasizing that greater insights can be gained by incorporating relevant contextual factors including Islam and indigenous values (*adat*) in critically examining gender-based judgments in the unique context of Indonesia. This is in contrast to most prior studies in Islamic countries that largely overlooked the influence of Islam and indigenous values in their examinations. Drawing from a varied literature including politics, anthropology and sociology, this paper shows that the integration of various perspectives may facilitate a better understanding of the complexity and dynamic of contextual influences, including culture, on accounting judgments. By so doing, this paper also emphasizes the limitation of narrowly-focused approaches such as simplistic dimensions and categorizations, such as Hofstede's (1980) and Hofstede and Bond's (1988) cultural dimensions, which largely provide limited insights into contextual influences on accounting. Indeed, it is has been increasingly acknowledged that it is important to extent prior research on accountants judgments to gain better understanding of accountants judgments in various contexts.

Findings with respect to accounting students have implications for accounting education within Indonesia. Findings with respect to professional accountants have implications for accounting firms in relation to, for example, training design and audit team assignment. The insights provided in this study have implications for accounting research that focuses on gender and judgments. In addition, findings may also be useful to accounting researchers, and both managers of multinational enterprises in general, and accounting firms in particular. The findings also have implications on the convergence of accounting and auditing and harmonization of accounting education, particularly in Islamic countries.

5.3. Overall Conclusions and Further Implications

This thesis provides a contextual examination of global convergence in an Indonesian context and emphasizes issues in the process that may raise challenges to achieve the international standards-setters' main objective of global comparability (IASB, 2002). Convergence has increasingly become an important and controversial topic because of the growing adoption of global accounting standards across the globe (Chand et al., 2011; Chand & Patel, 2008, 2011; Chand et al., 2010; Dimitropoulos et al., 2013; Ding et al., 2007; Heidhues & Patel, 2011, 2012a; Kabir et al., 2010; Karampinis & Hevas, 2011; McAnally et al., 2010; Patel, 2004, 2006; Tsipouridou & Spathis, 2012; Tyrrall et al., 2007). The adoption of global accounting standards is necessary for the achievement of comparability. However, that goal requires consistent implementation and application of the standards by professional accountants across countries (Chand et al., 2011; Chand et al., 2010; Doupnik & Perera, 2009). Thus, it is important to take into account differences in contextual environment and, in turn, preferences and judgments among professional accountants. Failure to understand accounting in a nation's social and institutional context is more likely to result in additional challenges and hurdles in the process. Indeed, an incompatible contextual environment is more likely to create problems in the adoption and application of accounting concepts and principles in a given country, leading to a lack of consistent judgments among professional accountants across countries. Importantly, inconsistent judgments particularly hinder the achievement of convergence's main objective of global comparability.

The findings of this thesis broadly show that international accounting research benefits from integrating wider perspectives and interdisciplinary approaches because they provide in-depth understandings of the convergence process and facilitate identification of potential problems in this process. In particular, the findings of this thesis provide evidence that international politics and power structures create external pressures on Indonesian accounting development, often without sufficient consideration of relevant contextual evaluations by Indonesian stakeholders. The findings provide evidence that Indonesian stakeholders have concerns regarding the political nature of convergence along with the promotion of principles-based standards and accountants' professional judgments. These attitudes and concerns may have serious implications for the convergence process by creating opposition and resistance rather than acceptance and support. Indeed, the findings indicate that, despite governmental support for convergence, powerful actors in Indonesia who feel threatened by the convergence, particularly about the increasing transparency it required and the promotion of the "substance over form" approach, often use their power to protect their interests by intervening and manipulating the application of global accounting standards. Correspondingly, the less powerful or the more dependent actors often choose to compromise with the demands of the more powerful ones. Furthermore, the Javanese *adat* emphasis on harmony within hierarchy (*rukun*) and conflict avoidance further support the use of compromise to resolve conflict between global accounting standards and important interests leading to "de jure" but not necessarily "de facto" convergence.

The findings from the foregoing contextual examination of convergence in Indonesia have important implications for the ongoing convergence process. The speed and extent of global convergence is being increasingly expanded by the ongoing forces of globalization, especially with the large-scale growth of international capital markets that require comparable financial information. The increasing adoption of global accounting standards such as IFRS may be regarded as an essential step toward convergence with the aim of providing "high-quality" global accounting standards, which are expected to enhance the international comparability of financial information. However, global convergence requires more than adopting a single set of global accounting standards worldwide. The findings of this thesis show that the adoption of a single set of global accounting standards ("de jure" convergence) may not necessarily lead to the harmonization of accounting practices ("de facto" convergence). Attention needs to be given to the national accounting environment and differences in professional accountants' judgments to identify and understand differences in the interpretation and application of global accounting standards. Indeed, richer insights into these differences would benefit stakeholders who analyze financial reports prepared in accordance with global accounting standards. Moreover, an in-depth understanding of various factors influencing professional accountants' judgments is necessary to achieve the IASB and IFAC's main objective of global comparability.

Convergence is a complex social and political process that necessitates the acceptance and support from stakeholders to achieve its objectives. The failure to recognize the importance of incorporating social, political, and economic factors may lead to additional challenges and constraints in achieving the IASB and IFAC's main objective. The findings provided in the context of Indonesia emphasize the importance of taking into account relevant contextual factors including external and domestic pressures as well as conflict of interest and power dependence with regards to the acceptance and support for convergence. Indeed, accounting convergence is believed to be a process of mutually developing best practice, meaning that the IASB and the IFAC should aim to be more inclusive in building greater consensus among major stakeholders. This is of particular importance given that the work of the IASB and the IFAC may be perceived to manifest biases toward Anglo-American accounting model. The emphasis on Anglo-American accounting principles and practices carries the implicit assumption that they are superior and equally applicable to all countries (Gallhofer & Haslam, 2007; Heidhues & Patel, 2012b; Perry & Noelke, 2006). The findings of this study provide evidence that this perception of Anglo-American dominance create additional obstacles regarding the acceptance and development of convergence.

The provision of holistic insights into a nation's contextual environment and the uniqueness of its accounting practices may be particularly important for countries that plan for global convergence and countries that have accounting systems that differ significantly from Anglo-American model. The insights provided in this thesis, with a focus on certain aspects of global convergence such as the focus on principles-based standards and professional accountants' judgments in the Indonesian context, may contribute to the discussion about adopting the global accounting standards. Early discovery and consideration of potential issues may help national and international standards-setters to develop relevant strategies to facilitate the adoption process. Further, the understanding of accountants' experience of the application of principles-based standards and the extensive use of professional judgments as well as potential factors influencing professional judgments may further assist in developing appropriate training programs. This may be of particular importance to accountants from countries that have had relatively little exposure to accounting standards requiring extensive exercise of professional judgments.

The findings of this thesis also have implications for accounting education. Students' learning experiences could be enhanced by incorporating external and domestic pressures for convergence, with a particular focus on conflict of interest and power dependence as well as a country's internal environment. Indeed, international accounting curricula often emphasize technical aspects of accounting rather than considering accounting as a socio-technical function that needs be understood in its socio-economic and institutional environment. Further, students would benefit from greater knowledge about various factors that influence accountants' judgments and potential differences in judgments and subsequent financial reports.

The consideration of contextual environment requires the examination of a country's unique social, political, and economic factors. It should not be based on assumptions derived from simplistic and broad categorizations and classifications. The findings of this thesis provide evidence that narrowly-focused approaches may fail to provide richer insights into global convergence in a particularly unique context. Indeed, the findings of this thesis challenge the simplistic assumption of homogeneity in values of judgments in Islamic countries and the accompanying assumptions of similarities within classifications or clusters.

5.4. Limitations and suggestion for future research

The case of Indonesia was used in this thesis to provide deeper and richer understandings of various aspects of global convergence as well as specific issues related to the promotion of principles-based standards and accountants' professional judgments. As such, the insights offered are applicable to Indonesia but should not be generalized by assuming similarities with other countries. On the contrary, it is the purpose of this thesis to advocate rigorous examinations of a country's unique social, political, and economic factors as opposed to relying strongly on simplistic classifications and broad categorizations. It is important for researchers to focus on examining accounting development and convergence in a country's specific social and institutional setting.

A qualitative research approach was adopted to examine the contextual influences on convergence in Indonesia and the promotion of principles-based standards. One of the limitations of this research method is its dependence on the individual skills of researchers and potential influence of researchers' personal biases and values. Moreover, qualitative approach often faces issues of data reliability and validity of conclusions. Paper 1 and 2 (Chapters 2 and 3) have aimed to minimize these concerns by invoking a triangulation strategy by using multiple sources of interview data, namely, from leading accounting academics, senior professional accountants, and members of national standards-setting bodies. Indeed, the use of data triangulation is promoted to allow the examination of a broader range of issues and to enhance data reliability by enabling internal check on its validity. Moreover, concerns have also been raised regarding the generalizability of the findings to other populations. However, these concerns do not represent significant issues in relation to findings of this thesis. As mentioned before, this thesis highlights the importance of examining a country's accounting systems and practices in its unique contextual environments rather than relying on findings from supposedly similar countries.

The quantitative research approach with its hypothetico-deductive emphasis was also utilized in Papers 2 and 3 (Chapters 3 and 4). This approach has several limitations that warrant caution in the interpretation of its results. The quantitative approach may only provide reliable and valid findings if appropriately prepared and rigorously executed. This thesis has aimed to address these potential limitations by ensuring rigor in the preparation of survey instrument and data collection and analysis. In particular, several steps have been taken to ensure rigor in the preparation of survey instruments and data collection and analysis. Specifically, double-back translation processes and pilot-tests were conducted with specific emphasis on ensuring consistency between different language versions of instruments. In Paper 2 (Chapter 3), potential participants were strictly defined by requiring participating professional accountants to be those who work at Big Four accounting firms with more than one year's professional experience. In Paper 3 (Chapter 4), the equivalence of samples between the Javanese and the Minangkabau professional accountants was ensured by requiring participants to have at least one year's professional experience. Further, participating accounting students were required to have already undertaken Intermediate Financial Accounting and Auditing subjects to ensure their familiarity with the audit process in order to complete the questionnaires appropriately.

Papers 2 and 3 (Chapters 3 and 4) examined the preference for the principles-based standards and gender-based judgments in Indonesia. Various contextual influences on accountant's values and judgments were considered in developing the a priori hypotheses. Moreover, the survey questionnaires included factors such as gender, age and professional experience. However, the list of variables is not exhaustive. Specific institutional and environmental factors which present in Indonesia, as well as other individual characteristics and personality variables, may provide further explanations for preferences and also judgments of accounting students and professional accountants. Yet, it is important to note that this study overcomes a number of limitations of prior accounting research by rigorous analysis of contextual factors. Indeed, prior research has largely relied on narrowly-focused approaches such as simplistic categorization of high/low religiosity, Hofstede's (1980) and Hofestede and Bond's (1988) cultural dimensions, and Gray's (1988) accounting values, to measure the prevalence of cultural values in specific groups. However, the insights generated at group level cannot be applied to measure relationships at the individual level. The use of Construal of Self, as one example, allows additional insights into understanding preferences in interpreting and applying global accounting standards.

The focus of Paper 3 (Chapter 4) on Javanese and Minangkabau ethnic groups impairs the generalizability of the findings. Further, the use of scenarios to elicit responses from the subjects may also represent a limitation. Despite attempts to make the scenarios as realistic as possible, they may not fully depict "real life situations." In addition, Paper 2 (Chapter 3) used a sample of professional accountants and Paper 3 (Chapter 4) used a sample of professional accountants and accounting students. The sample may not be representative of all professional accountants and accounting students in Indonesia. As such, future research may consider examining accountants' professional judgments in different contexts and countries. Moreover, future research might focus on examining the influence of individual characteristics and personality variables on accountants' judgments. Greater and richer insights could be gained by including interdisciplinary perspectives and measures from other disciplines such as psychology, which may facilitate a better understanding of the complexity and dynamics of contextual influences including those of culture and religion. This is of particular importance given that the global standards-setters' objective is to ensure comparability within and across countries, which requires an understanding of various factors that may influence accountants' preferences and judgments in interpreting and applying global accounting standards.

In addition, further studies on professional accountants' preferences and judgments would benefit from further critical and contextual analysis of these topics with a particular focus on examining issues that may create constraints in achieving the global standards-setters' main objective of global comparability. Future studies may examine these issues in different countries and in different contextual environments to gain further global insights into this important and controversial topic. For example, the examination of these issues in other emerging and transitional economies would represent a valuable contribution to accounting research. In addition, future research may extend this thesis by using reliable personality variables other than Construal of Self. Future studies could also conduct large-scale comparative studies across various nations, firms' size, and industries. For example, it may be interesting to see how bankers who have been criticized during the current global financial crisis compare themselves to accountants on the preferred approach in interpreting and applying global accounting standards and gender-based judgments. Finally, future research may examine issues in accounting and convergence other than the preference for principles-based standards and gender-based judgments.

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Appendix 1: Interview Guide (Paper 1)

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Interview Guide
Research Project: "The Influence of Contextual Factors on Professional Accountants' Judgments in Indonesia"

I. Introduction and "Warm up" Questions

a. Thank participant for agreeing to participate.
b. Ask if there are any questions regarding the Interview meeting before we start.
c. Give outline of the meeting: remind participant that interview will be audio recorded to facilitate more accurate transcribing.
d. Ask if there are any questions regarding the Information and Consent Form sent earlier. Ask participants to sign Consent Form.

II. The Contextual Factors Influencing Global Convergence: The Case of Indonesia

Please provide answers based on your opinion to the following questions:

A. Motivation of convergence process in Indonesia.

1. What are the reasons that motivated Indonesia to join the international convergence of accounting (i.e., adopting the international standards of IAS/IFRS, ISA, the Code, and the IES developed by IASB and IFAC)?
2. Who are the supporters for the convergence movement?
3. Are there actors who oppose to the convergence movement? If yes, who are they?

B. Principles-based standards (PBS) versus Rules-based standards (RBS)

4. The 1994's financial accounting and auditing standards in Indonesia are mostly adopted from the US accounting and auditing standards. After 1998, and especially after 2008, Indonesia has issued local standards and guidelines which are adopted from the IAS/IFRS, ISA, the Code, and the IES.
   Is the difference between rules-based standards (RBS) versus principles-based standards (PBS) applies in Indonesian convergence process?
5. What is the definition of "substance over form"? What are the main conditions to apply the "substance over form" concept?
6. Having applied the convergence based financial reporting, auditing, and education standards as well as the Code of Ethics for Professional Accountants (based on internationally acceptable standards) do the financial statements, as complied, represent "true and fair view"?
   If not what additional disclosure requirements are needed?
7. Can you think of situations where the application of detailed legal rules would not lead to "true and fair view"? Please, refer to your current experience.
8. In what circumstances have you come across situations where the disclosure of additional information in the notes was required? Please provide examples.

C. <u>Indonesian contextual factors and international convergence process</u>

9. In your opinion, who are the important actors in achieving successful application of IFRSs-based financial accounting standards in Indonesia?
10. What about the role of companies' management versus auditors?
11. There is no translation of IFRS, ISA, the Code, and IES in Indonesian or Malay language. Do you think, this will raised an issue for applying these standards in Indonesia?
12. What do you think of the application of fair value accounting in Indonesia?
13. Do you agree that rules-based standards allow management to practice transaction structuring to achieve a preferable accounting treatment?
14. Do you agree that principles-based standards provide more latitude for management to choose suitable accounting treatments?
15. Do you think the fact that principles-based standards originated from Anglo-American context will have implications on the suitability of their application in Indonesia?
16. In your opinion, do Indonesian accountants interpret consistently the uncertainty expressions used in IFRS-based standards, such as probable, sufficiently, reasonably certain, major part, substantially, expected, significant influence, control, insignificant, and remote?
17. Does different ethnic origin of accountants in Indonesia cause different judgments among them?
    How about Indonesian accountants judgments on uncertainty expressions compared with accountants from other countries?
18. In your opinion, are there cultural (*adat*) values that will influence the convergence process in Indonesia?
    How about, *adat* values such as *musyawarah* and *gotong-royong*, and paternalism in Indonesia?
19. Are there any *Sharia* values that influence the convergence process in Indonesia? How about the *Sharia* transactions in banking sector in Indonesia? IFRS-based standards do not include standards for *Sharia* transactions, does this influence the convergence process in Indonesia?
20. In your opinion, do the previous Dutch and US practices still influence Indonesian accounting practices?
21. In your opinion, does Indonesian tax law have an important influence on the convergence process?
22. In your opinion, does the Indonesian experience with colonization and authoritarian government will have effects on the exercise of professional autonomy and professional judgments in applying principles-based standards?
23. In your opinion, do the large number of SOEs and FOBs in the country have effects on the convergence process?
24. Do you think the convergence process will be able to prevent earnings management and accounting frauds in Indonesia?
25. In your opinion, will the objective of convergence with internationally accepted standards be achieved?

III. <u>CLOSING</u>

Thank you very much for your time and the interesting information you have provided. If need be, for example if either of us need to clarify any points, I would be most happy to arrange another meeting with you.

Appendix 2: Survey Instrument (Paper 2)

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Survey on The Influence of Contextual Factors on Professional Accountants' Judgments in Indonesia

Dear Participants,

You are invited to participate in a study of auditors' exercise of professional judgements. The purpose of this questionnaire survey is to examine "**the influence of contextual factors on professional accountants' judgments"** in Indonesia*.*

The study is being conducted by Sany Dwita (Department of Accounting and Corporate Governance, telephone: +61 (0) 430 672 415, email: sany.dwita@students.mq.edu.au) to meet the requirements for PhD degree in Accounting under the supervision of Professor Chris Patel (telephone: +61 (0)2 9850 7825, email: chris.patel@mq.edu.au) and Doctor Rahat Munir telephone: +61 (0)2 9850 4765, email: rahat.munir@mq.edu.au) of the Department of Accounting and Corporate Governance, Faculty of Business and Economics, Macquarie University, Sydney, Australia.

If you decide to participate in this study, we would like to ask you to complete the attached questionnaire. The questionnaire consists of three parts. Part one collects your opinions regarding the use of uncertainty expressions in the financial accounting standards. Part two consists of questions regarding your personal values. Finally, part three collects your demographic information for the respondent's profile. It will take approximately 30 minutes to complete the questionnaire.

The questionnaire is anonymous and any information or personal details gathered in the course of the study are confidential (*except as required by law)*. No individual will be identified in any publication of the results. Data will be analysed in aggregate form, held solely by the researchers, Professor Chris Patel, Doctor Rahat Munir, and Sany Dwita, and will not be used for any other purposes. The results of this study shall be published as part of a PhD thesis, which will be available at Department of Accounting and Corporate Governance Macquarie University. The results may further be published in form of a journal article or a conference paper. You may also request a summary of the results directly from the researchers. (*The questionnaires and data sets will be stored in a secured locker at university for 5 years from the most recent date of publication).*

Participation in this study is entirely voluntary: you are not obliged to participate and if you decide to participate, you are free to withdraw at any time without having to give a reason and without consequence. The return of the questionnaire will be regarded as consent to use the information for research purposes. Your time and co-operation in this study will be greatly appreciated. For more details of this study, please do not hesitate to contact us.[1]

Sany Dwita
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The return of the questionnaire will be regarded as consent to use the information for research purposes

[1]The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics (telephone +61 (0) 2 9850 7854; email ethics@mq.edu.au). You may also contact this research's Local Contact Person in Indonesia through Ms. Novya Zulva Riani (telephone +62 (0) 81363 718827, email: novyazr@yahoo.co.id). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

"The return of the questionnaire will be regarded as consent to use the information for research purposes"

SECTION 1: UNCERTAINTY EXPRESSIONS USED IN ACCOUNTING STANDARD

1. Principles-based standards versus rules-based standards.

There are two types of standards: principles-based standards and rules-based standards.

The principles-based standards strongly rely on the "substance-over-form" approach that requires extensive exercise of accountants' professional judgements in examining the nature and context of business transactions rather than fixation on their legal form.

Whereas, **rules-based standards** focus strongly on the legalistic approach that requires very little exercise of accountants' professional judgements.

Considering the Indonesian people's background such as historical, political, social and cultural background, **in your opinion,** which type of standard is most suitable to be applied in Indonesia?

Please indicate your preference by circling the relevant number below.

Rules-based standards								**Principles-based standards**
1	2	3	4	5	6	7	8	9

Please provide reasons for your answer

____

____

____

2. Uncertainty expressions used in financial accounting standard for Leases (IAS 17 & PSAK 30)

Financial accounting standard for leases requires classification of a lease transaction either as a finance lease or operation lease.

A lease is classified as a finance lease if it transfers "substantially" all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer "substantially" all the risks and rewards incidental to ownership.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
b) the lessee has the option to purchase the asset at a price that is expected to be **"sufficiently"** lower than the fair value at the date the option becomes exercisable for it to be **"reasonably certain"**, at the inception of the lease, that the option will be exercised;
c) the lease term is for **"the major part"** of the economic life of the asset even if title is not transferred;
d) at the inception of the lease the present value of the minimum lease payments amounts to at least **"substantially"** all of the fair value of the leased asset; and
e) the leased assets are of such a specialised nature that only the lessee can use them without **"major"** modifications.

a	**Which approach do you prefer to be applied in the financial accounting standard for Leases?** The lease term is for the **“major part”** of the economic life of the asset at the inception of the lease. **versus** The lease term is for **“75% or more”** of the economic life of the asset at the inception of the lease. **“major part”** … **“75% or more”** 1 2 3 4 5 6 7 8 9 **Please provide reasons for your answer** __________ __________ __________

b.	**Which approach do you prefer to be applied in the financial accounting standard for Leases?** At the inception of the lease, the present value of the minimum lease payments amounts to at least **“substantially”** all of the fair value of the leased asset. **versus** At the inception of the lease, the present value of the minimum lease payments amounts to at least **“90% or more”** all of the fair value of the leased asset. **“substantially”** … **“90% or more”** 1 2 3 4 5 6 7 8 9 **Please provide reasons for your answer** __________ __________ __________

3.	**Uncertainty expressions used in financial accounting standard for Investment in Associates (IAS 28 & PSAK 15)**

The Standard clarifies that investments in associates over which the investor has **"significant influence"** must be accounted for using the equity method whether or not the investor also has investments in subsidiaries and prepares consolidated financial statements.

Which approach do you prefer to be applied in the financial accounting standard for Investment in Associates?

The Standard clarifies that investments in associates over which the investor has **"significant influence"** must be accounted for using the equity method.

versus

The Standard clarifies that investments in associates over which the investor holds, directly or indirectly (e.g. through subsidiaries**), "20% or more"** of the voting power of the investee must be accounted for using the equity method.

"significant influence" — **hold "20% shares or more"**

1	2	3	4	5	6	7	8	9

Please provide reasons for your answer

____

____

____

4	**Uncertainty expressions used in financial accounting standard for Business Combinations (IFRS 3 & PSAK 22)**

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains **"control"** of the other business (the acquiree).

Which approach do you prefer to be applied in the financial accounting standard for Business Combinations?

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains **"control"** of the other business (the acquiree).

versus

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains **"50 per cent or more"** of the voting power of the other business (the acquiree).

"controlled" — **hold "50% shares or more"**

1	2	3	4	5	6	7	8	9

Please provide reasons for your answer

____

____

____

SECTION 2: PERSONAL VALUES

***Part A*: Please indicate how much you agree or disagree with each of the following statements?**
(Please put only one "√"in each row across).

Note:

SD = Strongly disagree

D = Disagree

U = Undecided

A = Agree

SD = Strongly agree

No	Statements	SD	DA	U	A	SA
1.	I have respect for the authority figures with whom I interact.					
2.	It is important for me to maintain harmony within my group.					
3.	My happiness depends on the happiness of those around me.					
4.	I would offer my seat in a bus to my professor.					
5.	I respect people who are modest about themselves					
6.	I will sacrifice my self-interest for the benefit of the group I am in.					
7.	I often have the feeling that my relationships with others are more important than my own accomplishments.					
8.	I should take into consideration my parents' advice when making education/ career plans.					
9.	It is important to me to respect decisions made by the group.					
10.	I will stay in a group if they need me, even when I'm not happy with the group.					
11.	If my brother or sister fails, I feel responsible					
12.	Even when I strongly disagree with group members, I avoid an argument					
13.	I'd rather say "No" directly, than risk being misunderstood					

No	Statements	SD	DA	U	A	SA
14.	Speaking up during a class is not a problem for me.					
15.	Having a lively imagination is important for me.					
16.	I am comfortable with being singled out for praise or rewards.					
17.	I am the same person at home that I am at school.					
18.	Being able to take care of myself is a primary concern for me.					
19.	I act the same way no matter who I am with.					
20.	I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.					
21.	I prefer to be direct and forthright when dealing with people I've just met.					
22.	I enjoy being unique and different from others in many respects.					
23.	My personal identify independent of others, is very important to me.					
24.	I value being in good health above everything.					

Part B: **Please provide the probability (p) in the following question:**

Suppose you are in the following situation. Someone is willing to give you \$500 for certain, or a gamble that pays \$1,000 with probability p, and \$0 with probability (1− p). What would p have to be (between 0 and 1) such that you are indifferent between the guarantee of receiving \$500 and accepting the gamble?

Please indicate the p:

SECTION 3: YOUR PERSONAL PROFILE

A. Please respond to the following questions so that a profile for respondents can be developed.

1. How old are you? _____ years old

2. How many years of professional experience do you have? ______ years

3. What is your gender? □ Male □ Female

4. Which of the following best described your current position level in the CPA firm:
   □ Junior □ Manager
   □ Senior □ Partner

5. What is your ethnicity? _________________

6. In which city did you complete your:
   Primary education ________
   Secondary education __________ Tertiary education ___________

7. Are you a member of:
   □IAI (*Ikatan Akuntan Indonesia*) □IAPI (*Ikatan Akuntan Publik Indonesia*)

8. Are you a: □Registered Accountant (Ak) □ Certified Public Accountant (CPA or BAP)

   How many years of professional experience do you have as a registered accountant? __ years
   How many years of professional experience do you have as a CPA or *BAP*? __ years

9. How familiar are you with Indonesian Statement of Financial Accounting Standards (*PSAK—Pernyataan Standar Akuntansi Keuangan*)?
   □ Very familiar □ Somewhat familiar
   □ Familiar □ Not familiar

10. How frequently do you refer to Indonesian Statement of Financial Accounting Standards (*PSAK—Pernyataan Standar Akuntansi Keuangan*) in your professional practices?
    □ Often □ Seldom
    □ Sometimes □ Never

11. What is your firm's size?
    □ Big-four □Mid-tier □Small □None

12. What is your highest academic qualification?
    □Diploma □Bachelor's degree □Master's degree □PhD

<u>Please ensure that you have answered every question.</u>
Your response is very important to the research which will contribute to the understanding professional auditors' judgments in Indonesia.

Thank you for taking the time to complete this survey. Your assistance is very much appreciated.
If you have any further comments please provide them in the space provided.

Thank you for your participation!

Sany Dwita
email: sany.dwita@students.mq.edu.au
tel: +61 (0) 449966 089
Department of Accounting and Corporate Governance
Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109

Appendix 3: Survey Instrument (Paper 3)

FACULTY OF BUSINESS AND ECONOMICS

Department of Accounting and Corporate Governance
Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109
Phone: +61 (0)2 9850 7825x
Fax: +61 (0)2 9850 8497
Email: chris.patel@mq.edu.au

Survey on The Influence of Client's Explanations on Auditors' Judgments

Dear Participants,

You are invited to participate in a study of auditors' exercise of professional judgements relating to client's explanations. The purpose of this questionnaire survey is to examine the influence of client's explanations on auditors' judgements in Indonesia.

The study is being conducted by Sany Dwita (Department of Accounting and Corporate Governance, telephone: +61 (0) 430 672 415, email: sany.dwita@students.mq.edu.au) to meet the requirements for PhD degree in Accounting under the supervision of Professor Chris Patel (telephone: +61 (0)2 9850 7825, email: chris.patel@mq.edu.au) and Doctor Rahat Munir telephone: +61 (0)2 9850 4765, email: rahat.munir@mq.edu.au) of the Department of Accounting and Corporate Governance, Faculty of Business and Economics, Macquarie University, Sydney, Australia.

If you decide to participate in this study, we would like to ask you to complete the attached questionnaire. The questionnaire consists of two parts. Part one collects personal data about the respondents. Part two consists of a case study, and you are asked to provide judgments and answer some questions concerning the case study. It will take approximately 15 minutes to complete the questionnaire.

The questionnaire is anonymous and any information or personal details gathered in the course of the study are confidential (*except as required by law)*. No individual will be identified in any publication of the results. Data will be analysed in aggregate form, held solely by the researchers, Professor Chris Patel, Doctor Rahat Munir, and Sany Dwita, and will not be used for any other purposes. The results of this study shall be published as part of a PhD thesis, which will be available at Department of Accounting and Corporate Governance Macquarie University. The results may further be published in form of a journal article or a conference paper. You may also request a summary of the results directly from the researchers. (*The questionnaires and data sets will be stored in a secured locker at university for 5 years from the most recent date of publication).*

Participation in this study is entirely voluntary: you are not obliged to participate and if you decide to participate, you are free to withdraw at any time without having to give a reason and without consequence. The return of the questionnaire will be regarded as consent to use the information for research purposes. Your time and co-operation in this study will be greatly appreciated**.** For more details of this study, please do not hesitate to contact us.[1]

Sany Dwita (tel: +61 (0) 430 672 415, email: sany.dwita@students.mq.edu.au)

"The return of the questionnaire will be regarded as consent to use the information for research purposes"

[1]The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics (telephone +61 (0) 2 9850 7854; email ethics@mq.edu.au). You may also contact this research's Local Contact Person in Indonesia through Ms. Novya Zulva Riani (telephone +62 (0) 81363 718827, email: novyazr@yahoo.co.id). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

“The return of the questionnaire will be regarded as consent to use the information for research purposes”

SECTION 1: YOUR PERSONAL PROFILE

Please respond to the following questions so that a profile of respondents can be developed.

Are you: □Male □Female

How old are you?

□20-24 □ 25-29 □ 35-39 □ 50-59
□ 30-34 □ 40-49 □ 60 or over

What is the level of your highest qualification?

□ Bachelor degree □ Doctorate
□ Master degree □ Other (please specify) ______________________

In which city did you complete your:

Primary education ________ Secondary education __________ Tertiary education ____________

What is your ethnicity? ________________

Are you a member of:
□IAI (*Ikatan Akuntan Indonesia*) □IAPI (*Ikatan Akuntan Publik Indonesia*)

Do you have: □ Accountant Title (*Ak*) □ Certified Public Accountant (CPA or *BAP*)

How many years of professional experience do you have as a registered accountant? ______

How many years of professional experience do you have as a CPA or BAP? _________

In which of the following areas do you specialise or work?

□ Audit □ Consulting
□ Tax □ Other (please specify) ______________________

How familiar are you with Indonesian equivalent of IASs/IFRS and ISAs?

□ Very familiar □ Familiar □ Somewhat familiar □ Not familiar

How frequently do you refer to Indonesian equivalent of IASs/IFRS and ISAs in your professional practices?

□ Often □ Sometimes □ Seldom □ Never

The IFRSs are principles-based standards and require extensive use of accountants’ judgments. In contrast, rules-based standards are more specific and provide detailed guidance and require little exercise of professional judgments.
Please indicate your preference for rules-based or principles-based standards as these apply to Indonesia by ticking the appropriate box below!

Rules-based standards								**Principles-based standards**
1	2	3	4	5	6	7	8	9

Please provide reasons for your answer

____

SECTION 2: CASE STUDY

Below is a scenario regarding inventory valuation in an audit. Conversation between auditor and client's CFO is provided in which the auditor recommends an inventory write-down and the CFO explains why an inventory write-down is considered unnecessary.

You are asked to assume the role of an audit manager and to provide judgments on the case by providing responses on the amount of inventory write-down you recommended.

There are no "right" or "wrong" answers for any of these questions.
(Please indicate by writing down the monetary amount).

Summary of Inventory Valuation Audit Case

You are an audit manager of a big accounting firm who is in charge of the audit of PT MicroClone, a manufacturer of IBM-compatible personal computers. You have extensively analysed the company's finished goods inventory as follows:

No.	Inventory Type	Units
1.	4^{th} generation computers	2,000 units (25%)
2.	5^{th} generation computers	6,000 units (75%)
	Totals	8,000 units (100%)

MicroClone's inventory of 4^{th} generation computers is presently valued at cost ($1,000 per unit), for a total of $2,000,000 ($1,000 x 2,000 units). The 5^{th} generation computers use the latest microprocessor chip available on the market.

You have identified what might be a problem concerning the 4^{th} generation inventory. You noted that during the 4^{th} quarter, MicroClone began shipping personal computers using the 5th generation; thus, you are concerned that the value of the 4th generation computers remaining in the inventory might be overstated.

You are also concerned about a potential overvaluation problem because 4^{th} generation computers will eventually become obsolete by industry standards. Your analysis suggested that each 4^{th} generation computer in the inventory should be valued at $800, not $1,000. Thus, you believe that MicroClone's estimate of 4^{th} generation computers could be overstated by as much as $200 per unit, yielding a potential over-valuation of $400,000 ($200 x 2,000 units)—at the most.

You have decided to take the inventory issue directly to Budi (Ani), the Chief Financial Officer (CFO) of MicroClone. Your aim is to ask Budi (Ani) to explain his/her point of view regarding the 4th generation issue by sending him an email message. Budi (Ani) is a certified public accountant (BAP—*Bersetifikat Akuntan Publik*), has a master degree, and also has 15 years of accounting experience.

Given the available information and realising that you have yet to receive a response from Budi (Ani), if you had to make a recommendation at this point, by how much would you recommend MicroClone write down their 4^{th} generation inventory (between $400,000 and $0)? ____________________

Please provide reasons for your answer
____

____

Please provide your judgements before continuing to the next part.

As a response to your email, the client's CFO, Budi (Ani), sends you 5 emails regarding the obsolescence issue.

Our company has a plan for the 4th generation computers. We propose to export them to South America and Africa where we think we can develop a market for them. I don't intend to write down the inventory until we see whether they can be sold at a profit in the export market.

Budi (Ani)

Our company's profits were outstanding this year, despite the economic downturn and higher development and marketing cost for our newest models. Right now we show a nice profit increase compared to last year, and we need to maintain that positive trend.

Budi (Ani)

MicroClone plans to issue stock to the public within the next six months. If we have to reduce the value of the 4th generation models, we might jeopardise our chances for a favourable stock offering. I cannot adjust that inventory at this time.

Budi (Ani)

The marketing department is currently working on several contracts. MicroClone has contacted a number of agents who may be interested to represent the company. We have signed a contract with a South American company to take some 4th generation models on consignment.

Budi (Ani)

Some letters from several agents indicated that the agents were in active discussions with several companies who had expressed interest in purchasing the PCs. A single contract showed the South American agent committed a retailer in Caracas, Venezuela, to accept 250 units of 4th generation models on consignment for a maximum term of six months.

Budi (Ani)

Recall that previously you have recommended MicroClone to write down their inventory by certain amount.

Now, having read Budi's (Ani's) position on this matter, by how much would you recommend MicroClone write down their 4th generation inventory (between \$400,000 and \$0)? ________________

Please provide reasons for your answer

____

____

Questions for the Inventory Valuation Audit

A. Was the CFO male or female? □Male □Female

B. Please answer the following questions based on your opinion by circling the relevant number in each line across.

1. In your opinion, how competent was the CFO of MicroClone, Inc.?

Not very competent				Moderately competent				Very competent
1	2	3	4	5	6	7	8	9

2. In your opinion, how capable was the CFO of MicroClone, Inc.?

Not very capable				Moderately capable				Very capable
1	2	3	4	5	6	7	8	9

C. Please answer the following questions by circling the relevant number in each line across.

No.	**Questions**	**Men much more**				**Men & Women alike**				**Women much more**
1.	In your opinion, who is more ambitious to be successful in the business world?	1	2	3	4	5	6	7	8	9
2.	In your opinion, who is more capable of learning mathematical and mechanical skills?	1	2	3	4	5	6	7	8	9
3.	In your opinion, who is more competitive to be successful in the business world?	1	2	3	4	5	6	7	8	9
4.	In your opinion, who is more assertive in business situations that demand it?	1	2	3	4	5	6	7	8	9
5.	In your opinion, who is more aggressive in business situations that demand it?	1	2	3	4	5	6	7	8	9
6.	In your opinion, who possesses more self-confidence required of a good leader?	1	2	3	4	5	6	7	8	9

D. Suppose you are in the following situation:

Someone is offering you two options to choose with the same time frame. The first option is to give you \$500 cash for certain. While the second option is to give you an investment security that pays \$1,000 with probability ***p***, or \$0 with probability (1 - ***p***). What would the probability ***p*** have to be (between 0 and 1) such that you feel no difference between choosing the both options (the \$500 cash and the investment security)?

Please indicate the *p*:______________

<u>Please ensure that you have answered every question.</u>

Your response is very important to the research which will contribute to the understanding professional auditors' judgments in Indonesia.

Thank you for taking the time to complete this survey. Your assistance is very much appreciated. If you have any further comments please provide them in the space provided.

Thank you for your participation!

Sany Dwita
email: sany.dwita@students.mq.edu.au
tel: +61 (0) 449966 089
Department of Accounting and Corporate Governance
Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109

Appendix 4: Ethics Approval

Faculty of Business & Economics
Human Research Ethics Sub Committee
Building E4A, Room 707
MACQUARIE UNIVERSITY NSW 2109

Phone **+61 (0)2 9850 4826**
Fax +61 (0)2 9850 6140
Email yanru.ouyang@mq.edu.au

15 August 2011

Professor Chris Patel
Faculty of Business and Economics
Macquarie University, 2109 NSW

Reference: 5201100593(D)

Dear Professor Chris Patel

FINAL APPROVAL

Title of project: **The influence of contextual factors on professional accountants' ethical judgments in Indonesia.**

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business & Economics Human Research Ethics Sub Committee, and you may now commence your research. The following personnel are authorised to conduct this research:

Chris Patel - Chief Investigator/Supervisor
Hector Perera - Co-Investigator
Sany Dwita – Co-Investigator

Please note the following standard requirements of approval:

1. The approval of this project is **conditional** upon your continuing compliance with the *National Statement on Ethical Conduct in Human Research (2007)*.

2. Approval will be for a period of five (5 years) subject to the provision of annual reports. **Your first progress report is due on 15 August 2012.**

   If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report on the project.

   Progress Reports and Final Reports are available at the following website:
   http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. Please notify the Committee of any amendment to the project.

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that might affect continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at: http://www.research.mq.edu.au/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide Macquarie University's Research Grants Officer with a copy of this letter as soon as possible. The Research Grants Officer will not inform external funding agencies that you have final approval for your project and funds will not be released until the Research Grants Officer has received a copy of this final approval letter.

Yours sincerely

Alan Kilgore
Chair, Faculty of Business and Economics Ethics Sub-Committee

SANY DWITA< sany.dwita@students.mq.edu.au>

Final Approval - 5201200857(D)

1 message

Mrs Yanru Ouyang< yanru.ouyang@mq.edu.au> Wed, Jan 30, 2013 at 5:29 PM
To: Professor Chris Patel <chris.patel@mq.edu.au>
Cc: Mr Rahat Munir <rahat.munir@mq.edu.au>, Miss Sany Dwita <sany.dwita@students.mq.edu.au>

Dear Prof Patel,

Re: 'The Influence of Contextual Factors on Professional; Accountants' Judgements in Indonesia.'

Reference No.: 5201200857

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business & Economics Human Research Ethics Sub Committee. Approval of the above application is granted, effective 30 January 2013 and you may now commence your research.

This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007). The National Statement is available at the following web site:

http://www.nhmrc.gov.au/_files_nhmrc/publications/attachments/e72.pdf.

The following personnel are authorised to conduct this research:

Prof Chris Patel
Mr Rahat Munir
Miss Sany Dwita

NB. STUDENTS: IT IS YOUR RESPONSIBILITY TO KEEP A COPY OF THIS APPROVAL EMAIL TO SUBMIT WITH YOUR THESIS.

Please note the following standard requirements of approval:

1. The approval of this project is conditional upon your continuing compliance with the National Statement on Ethical Conduct in Human Research (2007).

2. Approval will be for a period of five (5) years subject to the provision of annual reports.

Progress Report 1 Due: 30th Jan 2014
Progress Report 2 Due: 30th Jan 2015
Progress Report 3 Due: 30th Jan 2016
Progress Report 4 Due: 30th Jan 2017
Final Report Due: 30th Jan 2018

NB. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report for the project.

Progress reports and Final Reports are available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. All amendments to the project must be reviewed and approved by the Committee before implementation. Please complete and submit a Request for Amendment Form available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that affect the continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at the following websites:

http://www.mq.edu.au/policy/
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide the Macquarie University's Research Grants Management Assistant with a copy of this email as soon as possible. Internal and External funding agencies will not be informed that you have final approval for your project and funds will not be released until the Research Grants Management Assistant has received a copy of this email.

If you need to provide a hard copy letter of Final Approval to an external organisation as evidence that you have Final Approval, please do not hesitate to contact the FBE Ethics Committee Secretariat, via fbe-ethics@mq.edu.au or 9850 4826.

Please retain a copy of this email as this is your official notification of final ethics approval.

Yours sincerely
Alan Kilgore
Chair, Faculty of Business and Economics Ethics Sub-Committee

MACQUARIE UNIVERSITY

SANY DWITA< sany.dwita@students.mq.edu.au>

Approved - 5201300344

1 message

Mrs Yanru Ouyang< yanru.ouyang@mq.edu.au> Mon, May 20, 2013 at 3:37 PM
To: Professor Chris Patel <chris.patel@mq.edu.au>
Cc: Miss Sany Dwita <sany.dwita@students.mq.edu.au>, Mr Rahat Munir <rahat.munir@mq.edu.au>

Dear Professor Patel,

RE: 'The influence of contextual factors on professional accountants' ethical judgements in Indonesia. (This is the revised application 5201100593. All progress/final reports set up under 5201100593 which expired on 15/08/16) ' (Ref: 5201300344)

The above application was reviewed by the Faculty of Business & Economics Human Research Ethics Sub Committee. Approval of the above application is granted, effective "20/05/2013". This email constitutes ethical approval only.

This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007). The National Statement is available at the following web site:

http://www.nhmrc.gov.au/_files_nhmrc/publications/attachments/e72.pdf.

The following personnel are authorised to conduct this research:

Miss Sany Dwita
Mr Rahat Munir
Professor Chris Patel

NB. STUDENTS: IT IS YOUR RESPONSIBILITY TO KEEP A COPY OF THIS APPROVAL EMAIL TO SUBMIT WITH YOUR THESIS.

Please note the following standard requirements of approval:

1. The approval of this project is conditional upon your continuing compliance with the National Statement on Ethical Conduct in Human Research (2007).

NB. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report for the project.

Progress reports and Final Reports are available at the following website:
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. All amendments to the project must be reviewed and approved by the Committee before implementation. Please complete and submit a Request for Amendment Form available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that affect the continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at the following websites:

http://www.mq.edu.au/policy/
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide the Macquarie University's Research Grants Management Assistant with a copy of this email as soon as possible. Internal and External funding agencies will not be informed that you have approval for your project and funds will not be released until the Research Grants Management Assistant has received a copy of this email.

If you need to provide a hard copy letter of approval to an external organisation as evidence that you have approval, please do not hesitate to contact the FBE Ethics Committee Secretariat, via fbe-ethics@mq.edu.au or 9850 4826.

Please retain a copy of this email as this is your official notification of ethics approval.

Yours sincerely

Parmod Chand
Chair, Faculty of Business and Economics Ethics Sub-Committee