SYMBOLISM, RATIONALITY AND MYTH IN ORGANIZATIONAL CONTROL SYSTEMS

An Ethnographic Case Study of PBS Jakarta
Indonesia

A thesis submitted in fulfillment of the requirements for the award of the degree

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By

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I, Imam Wahyudi, declare that this thesis, submitted in partial fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Imam Wahyudi

8 November 2004
Abstract

The study of accounting in its environmental contexts requires an understanding of accounting beyond its technical and numerical aspects. To obtain social, cultural and political legitimacy, organizations tend to adopt formal structures and practices – including accounting - that have been widely accepted by society as social norms and values without necessarily using them in actual practices. Seen from this perspective, accounting information, and particularly budgeting that plays an important role in organizational control systems, is not “value free”. It intermingles and is implicated in constructing social reality by shaping and being shaped by the political interplay among contested interested parties that takes place in organizations.

This study examines the impact of the institutionalization of the authoritarian-bureaucratic regime of the New Order government of Indonesia in the PBS Jakarta – a private higher education institution – on the role of accounting and budgeting used within the organization. Incorporating the theory of closure of Weber and power mobilization developed by Hardy (1996) into institutional theory, a theoretical research framework is developed to reflect the researcher’s understanding regarding the research process as a result of his experience in interacting with the subject being studied for more than a decade – as an academic as well as an administrative staff member.

Following an ethnographic case study method that allows the involvement of the researcher as a part of the case being studied, the subjective experience of the researcher enriches the analysis of this study – reflexive-ethnography. An historical
analysis is performed by involving a confirmation by the researcher of other organizational participants’ understanding about the school’s control system through interviews – inter-subjective analysis. Documents and archival records are also used in order to provide official organizational and descriptive historical contexts of the case and to make available the powerful link between what people say – interviews – and what they actually do.

Instead of formal organizational structures being adopted, this study found that informal relationships, paternalistic management and physical control dominated everyday managerial practices in which the school head held the absolute power in the school. Budgeting as part of formal control systems, in this environment, facilitated a political deal among the school’s stakeholders and functioned as a rationalized myth to the process – not an efficiency measurement. In addition, financial statements played a symbolic reason to display how the managerial conduct was “rational” and financially responsible. An effort to implement a technical-rational efficiency discourse of budgeting into the school by the new school head, after the demise of the New Order government, turned out to be a devastating blow to the school development as it contradicted the organizational culture that existed in the school. Therefore, these findings contribute to the understanding of accounting as providing socially constructed meanings and reality – accounting is value-laden.
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# Table of Contents

**Certification**  
  
i  

**Abstract**  
  
ii  

**Acknowledgements**  
  
iv  

**Table of Contents**  
  
v  

**Chapter One - Introduction**  
  
1. Indonesia as a Postcolonial State  
2. Accounting’s Presence in the Five Eras – A Brief Overview  
3. Indonesia under the New Order Government  
  3.1. Military  
  3.2. *Pancasila* Ideology  
  3.3. Javanese Culture  
  3.4. Economic Development  
4. The Role of Accounting during the New Order  
5. Perbanas Business School (PBS) Jakarta  
6. The New Order’s Influence over PBS Jakarta  
7. Objective of the Study  
8. Research Questions Addressed by the Study  
9. Organization of the Study  
10. Contribution of the Study  

**Chapter Two - Interpretive Organizational Culture and Control System**  
  
1. Introduction  
2. Perspectives of Organizational Culture  
  2.1. Concept of Culture  
  2.2. Levels of Culture  
  2.3. Organizational Culture  
  2.4. Managing Organizational Culture  
3. Organizational Control Systems  
4. Accounting and Institutional Change  

v
Chapter Three - Theoretical Propositions

1. Introduction
2. The Genesis of Institutional Theory on Organization
3. Institutional Theory and Institutionalization
4. Institutional Isomorphism
   4.1. Coercive Isomorphism
   4.2. Mimetic Isomorphism
   4.3. Normative Isomorphism
5. Interests and Institution
6. Organizational Imprinting
7. Effects of Institutionalism on Organization
8. Managerial Responses to Institutional Processes
   8.1. Acquiescence
   8.2. Compromise
   8.3. Avoidance
   8.4. Defiance
   8.5. Manipulation
9. Problems of Institutional Theory
   9.1. Power, Interests and Process of Institutionalization
   9.2. The Problematic Concept of Decoupling
10. Incorporating Power and Theory of Closure
11. Research Framework
12. Concluding Remarks

Chapter Four - Methodological Issues

1. Introduction
2. Philosophical Foundation
3. Triangulation vs. Crystallization in Qualitative Research
4. Ethnographic Case Study Method
5. Fieldwork Stages
   5.1. Participant Observation
   5.2. Interviews
   5.3. Documents and Archival Records
6. Qualitative Data Analysis
7. Concluding Remarks

Chapter Five - Perbanas Business School Jakarta: A Tale of Its Progress and Individual's Domination

1. Introduction
2. Initial Involvement
3. Accumulating Power
4. Dominating the School
5. The Governing Bodies
6. Adopting Javanese Culture
   6.1. Concept of Rukun and Musyawarah – Mufakat
   6.2. Superior and Leader: Priyayi
7. Other Contributing Factors
8. Concluding Remarks

Chapter Six – Perbanas Business School Jakarta: Building up Power

1. Introduction
2. Concept of Power
3. Organizational Structure and Managerial Hierarchy
   3.1. Formal vs. Informal Organizational Structure
   3.2. Staff Appointment and Evaluation
4. Mobilization of Power
5. Exercising Status Groups
6. Paternalistic Management
7. Concluding Remarks
Chapter Seven – Perbanas Business School Jakarta: Institutionalization of the New Order Cultural and Political Values and Practices

1. Introduction 182
2. Domination of the New Order Government over Indonesian Society 183
   2.1. President Suharto as a Central Figure 185
   2.2. Appropriation of the State by Its Officials 188
   2.3. State Corporatism 191
3. The New Order and the Culture of Corruption 196
4. The PBS Jakarta: Cultural and Political Pressures 204
   4.1. Paternalism and Concentration of Power 205
   4.2. Rent-Seeking and Corrupt Practices 210
5. The PBS Jakarta: Government and Regulative Pressures 212
   5.1. Academic Issues 213
   5.2. Organization Structure 216
   5.3. Student Activities 218
6. Isomorphic Analysis 221
7. Concluding Remarks 225

Chapter Eight – Perbanas Business School Jakarta: Organizational Control System

1. Introduction 227
2. Informal Authorities and Cultural Dimension of Control System 228
3. Management Budgeting 233
4. Budget Approval as a Political Deal and Rationalized Myth 242
5. Physical Control and Performance Evaluation 247
6. Financial Statement – a Symbolic Display 254
7. Concluding Remarks 259

Chapter Nine – Perbanas Business School Jakarta: The Role of Accounting after the Demise of the New Order

1. Introduction 261
2. Management Practices 262
<table>
<thead>
<tr>
<th>Chapter Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1. The Awkward Relationship between the PBS Jakarta – the YPP</td>
<td>263</td>
</tr>
<tr>
<td>2.2. Leadership Style and Managerial Tensions</td>
<td>266</td>
</tr>
<tr>
<td>3. Accounting Discourse – Does Its Role Change?</td>
<td>270</td>
</tr>
<tr>
<td>3.1. Budgeting Discourse</td>
<td>271</td>
</tr>
<tr>
<td>3.2. Ambiguity of Performance Measurement Practices</td>
<td>276</td>
</tr>
<tr>
<td>4. Accounting and Budgeting: Power and Cultural Interplay</td>
<td>282</td>
</tr>
<tr>
<td>5. Concluding Remarks</td>
<td>288</td>
</tr>
<tr>
<td><strong>Chapter Ten – Final Notes</strong></td>
<td></td>
</tr>
<tr>
<td>1. Introduction</td>
<td>291</td>
</tr>
<tr>
<td>2. Mimicking the New Order Managerial Strategies</td>
<td>293</td>
</tr>
<tr>
<td>2.1. Centralization of Authority</td>
<td>293</td>
</tr>
<tr>
<td>2.2. Harmonious Social Order of Javanese Culture</td>
<td>294</td>
</tr>
<tr>
<td>2.3. Symbolic Formal Structures</td>
<td>295</td>
</tr>
<tr>
<td>2.4. Status Groups preference</td>
<td>296</td>
</tr>
<tr>
<td>2.5. Power Mobilization</td>
<td>297</td>
</tr>
<tr>
<td>3. Normative and Coercive Government Regulative Pressures</td>
<td>298</td>
</tr>
<tr>
<td>4. Organizational Control System Consequences</td>
<td>299</td>
</tr>
<tr>
<td>4.1. Informal Authority: Personal Control</td>
<td>300</td>
</tr>
<tr>
<td>4.2. Physical Discourse – Control and Performance</td>
<td>302</td>
</tr>
<tr>
<td>4.3. Budgeting Interplay</td>
<td>303</td>
</tr>
<tr>
<td>4.4. Symbolic Reason and Myth of Financial Statements</td>
<td>306</td>
</tr>
<tr>
<td>5. Imposing Technical-Rational Control of Accounting</td>
<td>307</td>
</tr>
<tr>
<td>6. Conclusion</td>
<td>309</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>312</td>
</tr>
<tr>
<td><strong>Appendices</strong></td>
<td></td>
</tr>
<tr>
<td>Appendix 1: Managerial Positions Based on Religious Status Groups 1992</td>
<td>346</td>
</tr>
</tbody>
</table>
Chapter One

Introduction

1. Indonesia as a Postcolonial State

Formally, Indonesia as a state was formed on 17th August 1945 when a small group of Indonesians led by Sukarno and Mohammad Hatta proclaimed independence from the Dutch and established the Republic of Indonesia. They set up a provisional government and, in the same year, adopted a constitution providing for a limited separation of executive, legislative and judicial power. That government was to govern until elections could be held and a new constitution written. Sukarno was declared President and Mohammad Hatta, Vice President. A Central Indonesian National Committee (KNIP) was to function as a temporary governing body until elections could be held. The new government then was installed on 31st August 1945 (History of Indonesia Website, 2002).

The independence from colonialism that had become a major attribute of modern states after the Second World War characterised the beginning of the era of Indonesia as a modern state. Embedded in the notion of the modern democratic state is the notion of a sovereign nation, independent of other nations where, internally, the people are sovereign. According to Dahl (1956, p. 3) democracy implies processes by which ordinary citizens exert a relatively high degree of control over leaders. In the Indonesian case, however, democracy became a consensual paradigm driven by a
bureaucratic-authoritarian regime hierarchy (Irsyam, 2001; Haryadi, 2002), as will be discussed further below.

The 1945 Indonesian Constitution had been drafted during the last month of the Second World War, before independence was declared, using the American Constitution as its model (Wolf, 1948, p. 17). It provided for strong executive control and command of all armed forces by the President and Vice-President, an elected parliament (DPR) and Council of Representatives (MPR)¹ to exercise the legislative function, and a Supreme Court (Mahkamah Agung) vested with the judicial power. Thus, on paper, the Indonesian post-colonial state was set up to express democratic ideals and embodied democratic mechanisms (Smith, 1999, p. 50). In short, the Republic of Indonesia was formally established as a modern democratic state. As argued below, the practice did not reflect the theory and that, as a result, the role of accounting in practice cannot be read merely from the perspective of a rational and modern democratic state.

In political terms, Indonesia has experienced five eras since the declaration of independence (Ricklefs, 1993; Kartakusuma and Sahrasad, 2002):

1. Revolution from 1945 to 1950;
2. Parliamentary Democracy from 1950 to 1959;
3. Guided Democracy from 1959 to 1965;
4. New Order from 1966 to 1998; and
5. Reform Order from 1998 till now

¹ The Council consisted of members of Congress plus representatives of interest groups in civil society chosen by Congress and representatives of provinces chosen by the Provincial Congress
Chapter 1 - Introduction

During the revolutionary period, the government did not function properly due to the four years of bitter fighting to defend the country from the attempts of the Dutch, the former colonial masters, to reoccupy Indonesia. This war ended in 1949 when the Dutch formally transferred sovereignty over Indonesia. Soon after, in 1950, Indonesia became a member of the United Nations.

In the second era, Indonesian Parliamentary Democracy was set up under a new constitution under which the powers of the President were curtailed and those of the parliament enhanced. The first general election was held in 1955, but no one party could achieve a majority; nor could a stable coalition be formed. Political instability resulted (Feith, 1994, p. 24). In 1959, President Sukarno, in alliance with the army, decreed a return to the executive-heavy revolutionary Constitution of 1945 (Liddle, 1996; Bourchier, 1994; Ricklefs, 1993; Koran Tempo, 2002). This event had marked the beginning of intense involvement of the army in Indonesian political life, which continued throughout the third era and continued until the end of the New Order government at the end of the fourth (in 1997).

The third era was tumultuous. The Indonesian economic collapse under Sukarno’s Guided Democracy (see, for example: Mody, 1987; Liddle, 1996; Nasution, 1994) combined with the failed coup of Indonesia’s Communist Party on 30 September 1965, heralded the emergence of Suharto and the army as the dominant political force in Indonesia. This emergence defines the start of the fourth, New Order era which forms the main focus of this study. It will be discussed in more detail below.
Notwithstanding these dramatic events, accounting has received attention throughout each of the last four eras, as discussed below.

2. Accounting’s Presence in the Five Eras — a Brief Overview

The new government of the second era almost immediately faced the problem of a shortage of higher education graduates, including accountants, to manage the state bureaucracy. For example, the Ministry of Finance continued to employ Dutch accountants because of the unavailability of suitably-trained Indonesians. To deal with this problem, the government sponsored an accounting program leading to a Masters degree at the University of Indonesia (in Jakarta) in 1952. This initiative was followed by the issuance of the Accountants Law no. 34/1954 to regulate the use of the title of ‘accountant’. The act stated that only those who completed a university sarjana or a master degree could become a so-called akuntan or accountant. For the same reason, the government sent students to study accounting in America (Yunus, 1990).

Indonesia gradually shifted its accounting orientation toward the USA from the Dutch for many reasons during the second and third eras. First, the USA offered loans and grants to upgrade education, including accounting education from 1951 (Yunus, 1990; Briston, 1990). Secondly, nationalization of all Dutch companies as a result of the confrontation with the Dutch over the West Papua region² prompted the expulsion of Dutch accountants from Indonesia in the Guided Democracy era (Yunus, 1990, p. 37-38). Thirdly, the doctoral thesis of Suhadji Hadibroto (1962) urging the Indonesian accounting profession to change its orientation to the American system had gained

² The Dutch at the time still controlled West Papua until 1st May 1963 when Indonesia got back full sovereignty over the region.
tremendous support from accounting educators, the accounting profession and the
government (Yunus, 1990, p. 38-40). Lastly, the liberalization of economic
environments for both domestic and foreign enterprises by the New Order government
(in the fourth era) led to an increased demand for services of professional accountants
(Diga and Yunus, 1997). Accordingly, this policy encouraged foreign investors,
multinational corporations, and American accounting firms to bring in new technology,
finance, modern management and accounting theory and practices to Indonesia. By
then, the Dutch influence had receded into history.

This thesis will focus on the role of accounting during the era of the New Order
government. The next section identifies aspects of that era that will guide future
analysis of that role.

3. Indonesia under the New Order Government

The regime that called itself the New Order was a collaboration between military and
civilian intellectuals especially economists. Ostensibly, the main objective of the
regime was economic equality. To achieve the objective, two conditions had to be
fulfilled; those were economic development and political stability. Over time, however,
the latter conditions began to receive more attention than the main objective. The army,
the state ideology of Pancasila and Javanese culture were all used to create and
maintain the political stability required by the economic development program.
Accordingly, these four elements (the army, Pancasila, Javanese culture and economic
stability) together formed the pillars of the New Order. They are discussed in turn.
3.1. Military

The New Order era borrowed from its predecessors. A significant example is the implementation of the concept of the middle-way previously proclaimed by and for the army, in particular, by Nasution, an Army Chief of Staff in 1958 (Lev, 1994). As formulated by Nasution, the middle-way implied that the army had both political as well military roles within Indonesian society. During the Suharto era, this concept was called as *dwifungsi* ABRI (Armed Forces dual function). As the major pillar of the New Order government, the military figures involved within the governmental bureaucracy were paramount.

The military involvement in politics can be traced back to the Indonesian’s struggle for independence from the Dutch in 1945 to 1949 (Liddle, 1996, p. 155). Since then the army has maintained that it was the biggest contributor both to Indonesia’s liberation from the Dutch and to the maintenance of national unity in the face of threat of disintegration. Borrowing Vatikiotis’s statement (1994, p. 63-64), the army “was never created as an instrument of the state, but was itself involved in the creation of the state”. Therefore, the army was not under civilian control. Not only did it manage its own internal affairs — it was also involved in non-military affairs, including politics (Muhammad, 1982; Mas’oed, 1989). Nasution’s middle-way concept, recast as *dwifungsi* by the New Order was just the official recognition and justification of the everyday practices of military officials dating back to the independence struggle periods (Muhammad, 1982; Lev, 1994; Kahin, 1994). Even, the dissolution of the

\[^{3}\text{ABRI’s political role is “directly tied to the military’s interpretation of Pancasila as an “integralistic” ideology” in which the state and society is seen as an organic totality and consequently the primary emphasis is on social obligations not individual right (Ramage, 1995, p. 125). Integralism has been used by ABRI to justify its role as defender of Pancasila ideology and national unity.}\]
Constituent Assembly by the first President of Indonesia, Sukarno, to move towards readoption of the relatively authoritarian 1945 Revolutionary Constitution was inspired by army leaders (Feith, 1994, p.19).

The *dwifungsi* concept justified the military intervention into civilian politics. Active and retired military personnel were placed in the People Consultative Assembly (MPR), parliament (DPR), provincial and district legislatures, executive and staff positions, formal and informal positions within the ruling party (Golkar) from Jakarta to the outmost islands and down to every village (Liddle, 1999, p. 44-47; Malley, 1999). Accordingly, Suharto had made the armed forces’ political influence greater than any other body in the country. Since 1965, power has become concentrated inside the state in the hands of small numbers of mostly military figures (MacIntyre, 1991, p. 250) and broader societal interests have been increasingly excluded from political participation and policy formation.

In short, Suharto placed much of his power not on the constitutional authority of the presidency, but on his ability to command the loyalty of the armed forces. The support of the armed forces for the president is the most crucial factor in the New Order political system (Mackie and MacIntyre, 1994). However, it is an overstatement to describe the regime simply as a military dictatorship. The power structure was too diffuse for that and the other pillars have all played an important role. Nevertheless, Suharto’s ability to centralise decision making authority, to maintain political stability and to implement a wide range of important policy measures have all depended on the fact that he had the capacity to impose his will by coercive measures, in the last resort (*Ibid*, p. 20).
The traumatic early years of Indonesian independence put a premium on political stability and the military’s dominant role reflected this ‘need’. In the early days of the New Order government even the Indonesian intellectual community supported the view that economic development could only be done if ideological conflict did not exist. Development should be based on pragmatism, rationalism, social order and practical expertise. The Indonesian intelligentsia believed that politicians had brought Indonesia into political disorder and economic bankruptcy (Mas’oed, 1989, p. 137). As this line was quite compatible with the prominence of the military as a stabilising force the army without any difficulty adopted it. Technocrats backed the army to run the state according to *ideologi pembangunan* (development ideology). The New Order government recruited civilian intellectuals into the economic ministerial posts and as advisors to President Suharto (Mas’oed, 1989, p. 132-149). Accordingly, the New Order government, sometimes, was classified as a bureaucratic-authoritarian regime (MacIntyre, 1991; Mas’oed, 1989; Liddle, 1996; Surbakti, 1999; Rahardjo, 1997).

In turn, the role of accounting would evolve within this milieu rather than on the basis of the dynamic of a market system where political stability could be taken for granted and the armed forces did not permeate the whole polity. What difference would this make to the uses to which accounting might be put? This issue will be explored in the present study.
3.2. Pancasila Ideology

The second pillar of the order under the President Suharto is *Pancasila* (Five Principles) as a state ideology. The principles, deliberately highly abstract, are Belief in God, Humanitarianism, Indonesian Unity, Democracy, and Social Justice. This ideology was included as a part of the opening section of the Constitution of 1945. Suharto, and also Sukarno when he introduced this idea in 1945, insisted that *Pancasila* is an indigenous product and reflects the national cultures of the Indonesian society. Suharto used it as an ideological weapon to delimit the boundaries of acceptable political contestation for both anti-Islamic and anti-Communist purposes (Liddle, 1996, p. 79).

A traumatic experience with Parliamentary Democracy experiment in 1950s and the failed coup of Indonesian Communist Party in 1965 had convinced the New Order government that *Pancasila*, as stated in the preamble of 1945 Constitution, should remain unchanged as state ideology. Furthermore, to enforce the adoption of the state ideology to all organizations, in 1985, under the Law on Mass Organizations, all social organizations and political parties were legally required to make *Pancasila* their sole ideology (*asas tunggal*) (Mody, 1987, p. 335; Vatikiotis, 1994, p. 95; Suryadinata, 1998, p. 39; MacIntyre, 1991, p. 28).

In practical terms, political parties and all other organizations could not form freely a discrete set of philosophies, principles or interests. The political parties especially were reduced to be mostly ceremonial. All these institutions had to be in line with the common national interest, supposedly known to, and articulated by, the state
Chapter 1 - Introduction

and its officials (Robison, 1994; Mody, 1987; Vatikiotis, 1994). In short, the state constructed social unity through ideological coercion. President Suharto and the New Order government used *Pancasila* as an instrument of coercion against political contenders.

Implicitly, Suharto suggested that criticism of the executive could be construed as anti-*Pancasila* and therefore disloyalty to the state (Vatikiotis, 1994, p. 141). In this regulated environment, the regime promoted a national political consensus through a highly controlled ‘consultative’ process. Political debate outside the process was branded as inappropriate and illegitimate (MacIntyre, 1991, p. 28). As will be argued later, the spread of *Pancasila* to organizations of all kinds came to affect the use and impact of accounting.

### 3.3. Javanese Culture

Compared to his predecessor, President Suharto was less cosmopolitan, more a small-town-conservative, more a product of a bureaucratic and military milieu, and more inclined to a Javanese-style cultural outlook, in particular, its hierarchical values. During the New Order era, the Javanization of all aspects of the life of the Indonesian people (political conduct especially) proceeded apace. The most important value of Javanese culture promoted by the New Order government was found in the ideal type of the relationship between a benevolent ruler (seen as a version of a Javanese King) and an obedient populace. President Suharto made all-important national political decisions. "He receives cabinet members and others individually rather than
collectively, as petitioners rather than as colleagues” (Suseno, 1999; Liddle, 1996, p. 80).

According to Suseno (1999), the most important imperative for a Javanese ruler is to maintain the monopoly of power. It is the Javanese hierarchical philosophy that people in higher positions should be respected. In response, a leader is responsible for the safety, prosperity and dignity of his or her followers (Suseno, 1999, p. 219). To the Javanese, a ruler, ideally, has no pamrih (self-interests to be driven by narrow egoistical interests). The power comes from above not from the people. Accordingly, it is essentially absolute power that is not accountable to the people. Power carries its own legitimacy, which, however, will supposedly quickly evaporate if the ruler acts on his/her own pamrih. Until recently, significant numbers of Indonesians, especially the Javanese, perceived the president essentially as a king (Surbakti, 1999, p. 62).

The Indonesia national motto of Bhinneka Tunggal Ika (unity in diversity) recognizes the diversity of culture and language in Indonesian society. Javanese culture was promoted as part of the solution to the ‘problem’ of diversity. Like Sukarno, Suharto maintained the domination of the Javanese culture in the political system (Mody, 1987). Traditionally, a Javanese official in high position demands respect and unquestioning loyalty from his subordinates. In equal measure, there is Javanese society’s unquestioning acceptance of authority (Vatikiotis, 1994). This Javanese benevolence-obedience ideal had strongly influenced Suharto’s political and administrative style in the form of paternalistic and hierarchical government (Suseno, 1999; Liddle, 1996). Javanization contained diversity.
Chapter 1 - Introduction

The norms of the New Order were centred on the head of the government, in this case, Suharto as President of the Republic of Indonesia (Mas’oed, 1989). His paternalistic regime behaved in a friendly and supportive way towards those playing according to the rules and repressed those that opposed to the rules. This clever management of social discipline had created a relatively peaceful society in which “the victimized were always in the position of being outsiders and could not therefore mobilise effective solidarity from the wider population” (Suseno, 1999, p. 225; see also: Mackie and MacIntyre, 1994, p. 45).

The benevolence-obedience ideal encourages statism of the bureaucrat’s attitudes toward society (Liddle, 1996). In this case, McVey (1982) characterised the New Order as a *beamtenstaat*, a state run by and for its officials. Government departments guided all social matters under an extreme centralisation. A strong tendency to uniformity also reflected the benevolence-obedience ideal. Indeed, the excessive power of the executive within the 1945 Constitution used by Indonesia’s founding fathers (who were mostly close to, or members of, the Javanese aristocrat elite), was itself an expression of this ideal premised, as it was, on the Javanese kingship concept of power (Vatikiotis, 1994, p. 113; Liddle, 1996).

Theoretically, the New Order government was part of a modern state. However, practically, its activities tended to adopt the traditional value of solidarity based on personal loyalty and obligations, whereas bureaucracies, in general, make a strong

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4 This social disciplinary management contributed most to the acceptance of the regime by the society and the syndrome of corruption, collusion and nepotism. “Javanese cultural values were, indeed, intentionally used to camouflage corruption” while the real cause was total paternalistic power system that led to a total monopoly of power of the New Order (Suseno, 1999, p. 225-226).
distinction between organizational and personal values and standards (Weber, 1978; Fenn, 1980). In Vatikiotis’ statement (1994, p. 202), “the New Order has been conspicuously successful in perpetuating traditional forms of paternalistic leadership through the manipulation of modern notions of nationhood and sovereignty”. What would happen to the operation of accounting in organisations where the same style of leadership was exercised?

3.4. Economic Development

The New Order government promoted *pembangunan ekonomi* (economic development), *stabilitas politik* (political stability) *pemerataan* (equality). As stated above, the struggle to achieve economic development and political stability crowded out the principle of equality, which was not seriously targeted until the end of the New Order era (Mas’oed, 1989, p. 146; Surbakti, 1999, p. 73-74; Hill, 1994, p. 105-107). Indeed, it seems that the inequality of economic development as a result of massive corruption and collusion practices combined with economic crisis finally brought the New Order down from power in 1997.

The original economic orientation of the New Order regime was chiefly determined in 1967, when Suharto officially became acting president (Chalmers, 1997). He made it clear that he would give priority to restoring economic growth and political stability. He formed a new agency, namely *BAPPENAS* (National Development Planning Agency) represented by economists, many of whom had previously studied in the United States of America and shared a general faith in market mechanisms (Robison, 1986; Chalmers, 1997). Under this agency, Indonesia opened its economy to
foreign aid and investments. In turn, donors and foreign investors wanted the
government to curb inflation, to reassure that market forces would be able operate
unhindered, and to guarantee that foreign property did not face nationalization in the
near future (Chalmers, 1997). Faced with these circumstances, state planners and
political leadership adopted pragmatic and an open door approach to the economy.

The result was significant. Little more than a decade after the New Order took
power in 1966, Indonesia was being hailed as one of Asia’s success stories (Hill, 1994,
p. 54). By the late 1980s, the country was being classified among the selected group of
developing countries destined shortly to become a newly industrialized economy.
President Suharto received international awards in recognition of the government’s
success in food production and family planning. Later in the decade, Indonesia had
been successful in poverty alleviation, even during the period of painful
macroeconomic stabilisation caused by halving of world oil prices (Hill, 1994, p. 54).
It was in this climate that accounting and accountants became established as part of the
modern Indonesia.

4. The Role of Accounting during the New Order

Under the economic development policy promoted by the New Order government from
1966 to 1998, the accounting profession in Indonesia grew rapidly. With the full
support from the government, the Indonesian professional accountancy body,
Indonesian Accounting Institute (Ikatan Akuntan Indonesia or IAI), founded in 1957 by
the first batch of graduate of the University of Indonesia accounting course (Yunus,
1990; Diga and Yunus, 1997), published in 1973 its first generally accepted accounting
principles (*Prinsip Akuntansi Indonesia* or *PAI*), Generally Accepted Auditing Standards and Code of Professional Ethics, all adopted from America.

Laws on commercial activities in Indonesia during the New Order affecting present financial accounting practices include the companies and investment laws, income tax laws and securities market regulation. Limited Company Law introduced in 1995 requires that limited companies maintain adequate financial records and provide financial statements particularly balance sheet and income statement to shareholders. Previously, under the old law, only broad requirements pertaining to financial reporting were mentioned (Diga and Yunus, 1997).

These measures were, in turn, part of an evolving regulatory regime that might appear familiar to a western reader. For example, a significant reform for a direct tax system was started in 1983 when the government promulgated the General Tax Provisions and Procedures law No. 6, the Income Tax Law No. 7 and the Value-Added Law No. 8 (Yunus, 1990). The regulations require Indonesian businesses to maintain and preserve detailed accounting records in Bahasa Indonesian for at least ten years. Records in English may be kept by foreign enterprises upon approval by the tax authorities. For tax purposes, profit of corporations must be determined in accordance with Indonesian Accounting Standards (*SAK*).

The opening of the capital market in 10th August 1977 boosted further the development of accounting, especially within the private business sector. To regulate and supervise the market, the Capital Market Executive Agency (*Badan Pelaksana Pasar Modal* or *BAPEPAM*) was formed by Presidential decree No. 52 in 1976. Among
the requirements released by the agency is that a company’s application for listing on the market will be approved if it has operated profitably for the last two years and if its accounts have been audited by a public accountant with an unqualified opinion being issued for the last year. The disclosure requirements follow closely the S-X of the United States SEC, including those pertaining to financial statements and assessment reports on environmental impacts of the company.

All of these efforts were supported and intensified by the development of accounting education within the tertiary education institutions. With financial and technical assistance from the US, the Indonesian government developed an accounting infrastructure. It included the training of accounting teachers, overseas training to Indonesians, supplying of teachers and textbooks, and development of accounting programmes at all levels (Briston, 1990; Briston and Yunus, 1993). Concerned about the shortage of qualified accountants to back up its economic development programs, the New Order government perceived that the US accounting educational system afforded a more flexible and effective way of increasing the number of qualified accountants in the country (Diga and Yunus, 1997).

Institutionalisation of a formal accounting framework during the New Order, accordingly, had taken place throughout the period of the regime. However, in its actual operation, it encountered the New Order’s bureaucratic-authoritarian and Suharto’s Javanese leadership style. Since all decisions tended to be made by a small group of government elites, nepotism and the patronage system became important considerations in decision-making processes. What impact might this have on the role of accounting? This study will argue that the bureaucratic-authoritarian mode applied
within government administration had weakened the role of accounting as a planning and controlling device. Accounting information, it will be argued, has instead functioned as a legitimating device serving the interests of the elite to the detriment of public interest.

The benevolence-obedience ideal of the Javanese culture also contributed to the weakening of society’s capacity to control the government. The blatantly corrupt practices enacted by government officials cannot be separated from the self-perpetuating patronage system that is in place at all levels of Indonesian society, from top to bottom, which rewards those who have a place within it and penalizes those who are excluded (Mackie and MacIntyre, 1994, p. 45). The effort to reduce corruption practices by improving official salaries has in fact also improved the opportunity for corruption (Sundhaussen, 1994, p. 280). Nishihara (1974) even accused Suharto himself of spreading a culture of corruption to the Indonesia society. As a result, corruption, collusion and nepotism (known as korupsi-kolusi-nepotisme or KKN) had been spreading within the Indonesian society.

External reporting cannot fail to be affected by such practices. Although BAPEPAM, through the Jakarta Stock Exchange, promotes market transparency by implementing the Indonesian accounting standards close to international standards, concerns remain among investors about the fairness of corporate disclosure. This is due to poor auditing controls and information leaking out to some parties before it reaches

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5 It is somewhat ironic that Suharto who came into power in 1966 promising to promote good and clean government and eliminating the corruption of the Old Order government finally he himself, his family and cronies accumulated “billions of dollars in assets as they siphoned off a share from virtually all of the development and private investment projects coming into the country” (Renoe, 2002, p. 106).
others (Montagnon, 1996). Inaccurate accounting or reporting of assets quality (Montgomery, 1997) has been a common problem in Indonesian society. What is less well-known is the impact of factors such as the benevolence-obedience ideal and bureaucratic-authoritarian forms of government on management accounting within organisations. It is in this topic area that this study will make a contribution, via a case study of how management accounting was used within an Indonesian institution of higher education.

5. Perbanas Business School (PBS) Jakarta

Indonesia’s higher education system has expanded rapidly since the 1960s. By 1996/1997, the number of higher education institutions in Indonesia had reached 1,370, 77 of them being state institutions with the rest being private institutions. Students enrolled at this time were 1,924,763, of which 475,988 were studying in the state tertiary education institutions, with the remaining 1,448,775 enrolled in private tertiary education institutions (Directorate General of Higher Education Republic of Indonesia, 2002). Therefore, looking at its capacity to absorb students, private tertiary education institutions have played an important role within the Indonesia education system.

According to the Indonesia Education Law No.2/1989, tertiary education institutions in Indonesia can be classified into: (a) degree granting institutions which include universitas (university), institut (Institute), sekolah tinggi (College of Higher

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6 In 1991/1992, total student enrolment was 1,603,600 that comprised of 1,049,800 students enrolled in private institutions and the remaining of 553,800 students enrolled in state institutions (Toisuta, 1991, p. 99). Compared to this figures, 1996/1997 figures showed a rapid growth in the students intake within Indonesia private tertiary education sector during that period.
Education); and (b) non-degree or professional training institutions that include politeknik (Polytechnics), and akademi (Academy).

Perbanas Business School Jakarta (PBS Jakarta) is a private college of a tertiary education institution that is run by the Indonesian National Private Banking Association (Perbanas). The school was established in 1969. Until the mid of 1980s, this school conducted only non-degree and professional training in accounting and banking/finance management, equal to the akademi.

The easing of restrictions on the establishment of new private banks in October 1988 and the opening of new branches of existing banks combined to greatly increase the number of private banks\(^7\) (Hendrobudiyanto, 1994; see also, Montgomery, 1997). This situation had created job opportunities within the banking area. The shortage of staff with banking and managerial skill created an opportunity for the PBS Jakarta to develop fully undergraduate programs in banking management and accounting. The rapid development of the school intake in the 1980s was characterised by the expansion of the building facilities and the increasing number of students enrolled from around 1,000 students in the beginning of 1980 to 10,702 students in the 1997\(^8\). Another contributing factor was the managerial skill and political networking of the head of the school.

\(^7\) Banking reforms were beginning in 1983 to remove most controls of interest rates, entry, credit allocation and lowered reserve requirements. “By the early 1990s, Indonesia possessed one of the most liberal banking systems in the world. Bank credit expanded rapidly as the number of institutions mushroomed to over 240” (Pincus and Ramli, 1998, p. 725).

\(^8\) Data taken from the Center of Planning and Statistic department of the PBS Jakarta.
What is the link, however, between the broad elements of Indonesian society identified in the first half of this chapter and the PBS Jakarta? Recent scholarship has allowed this link to be theorised persuasively. Many elements of formal organizational structure, policies and procedures arise as a consequence of what constitutes acceptable practice (DiMaggio and Powell, 1991; Scott, 1987a) in the broader society. The way the New Order government ruled the state had reached institutional status since it had been widely accepted in society (Rogenkamp and White, 2001). In particular, elements of New Order rule were reproduced within PBS Jakarta.

The necessity of linking the broader picture, characterised by the impact of the New Order regime on Indonesian society, to the organisational context of PBS Jakarta has been acknowledged and partly addressed, in the present section. The following section further analyses the relationship between the macro and micro levels, admittedly in abstract terms.\(^9\)

6. The New Order’s Influence over PBS Jakarta

The formal system of government promoted by the New Order was, ostensibly, that of a modern “western style” democracy. Both this formal structure and the postcolonial development project promoted by the New Order were consistent with a “western style accounting framework”, mainly adopted from the United States of America where accounting was seen as a planning and controlling device making a functional contribution to a “western modern society”. On the other hand, from the practical point of view, the government also promoted values, interests, and practices that contradicted

\(^9\) The empirical chapters will flesh out the relationship in some detail.
and tended to undermine the western formal system. Accordingly, contradictory *de jure* and the *de facto* dynamics were blended, as seen in the following figure 1.1 below.

![Diagram](image)

**Figure 1.1: The Mixture of “western-style democratic” government and accounting framework and local values, interest and practices**

This blend of contradictory forces widely influenced not only Indonesian society in general, but also the operations of organizations as well. The authoritarian-bureaucratic regime of the government had shaped the intense hegemony of the state over Indonesian society – individual organizations included. The legitimacy of an organization was determined largely by how the values, interests, and practices of the New Order were internalised by the organization. This dynamic applies to PBS Jakarta, as will be shown in later chapters. Figure 1.2 captures this point:
Chapter 1 - Introduction

[Diagram: What had been done at the societal level → Institutionalised and adopted into → Perbanas Business School Jakarta (Organizational level)]

**Figure 1.2: Institutionalisation of societal values into organizational values**

As part of its argument, this study will map the institutionalisation process noted in the figure above.

**7. Objective of the Study**

The study explores the process of institutionalisation of political practices by the New Order government elites, resource dependency and Javanese traditional/cultural values into the PBS Jakarta organizational control system. In particular, it will examine how accounting information was implicated in the institutionalisation of the New Order practices and values within PBS Jakarta in the period from 1987 to 1999 when they were widely accepted by the broader Indonesian society. The period after the demise of the New Order until 2003 will also be covered by this study to determine its influence on the role of accounting. It will show that how the school’s management used
accounting numbers that reflected the tensions in the broader society between the formal structure of the modern post-colonial Indonesian state and the way the New Order government actually operated. In other words, the actual use of accounting within the PBS Jakarta reflected the picture of the New Order government in the broader society.

At the organizational level, the main objective of the study is the elaboration of the sources of institutional patterns that affect the role of accounting information in the PBS Jakarta organizational control system. The political conduct of the ruling elite within the New Order government was adopted and enacted within PBS Jakarta by the school head, himself a member of that elite. It will further examine how the practices and values of the New Order, became intertwined with the PBS Jakarta management accounting system in such a way that compromised the social legitimacy and self-interest of the ruling elite and school’s head.

This ‘role’ will be contrasted to the textbook view of accounting as contributing to managerial efficiency. Enriched with Weberian perspectives of social closure based on traditional values, this study will explain how familial, ethnic and religious relationships that dominated practices within the institution shaped the role of accounting in PBS Jakarta – rather than the other way round. Concepts of power mobilization developed by Hardy (1996) – will also be exercised to describe managerial strategies to manage and maintain power that will implicate the role of accounting. The next section identifies the specific research questions through which this objective will be realised.
8. Research Questions Addressed by the Study

The head of the PBS Jakarta consciously created a legalistic and modern administrative framework (accounting included), but simultaneously built paternalistic relationships. Practically, the authoritarian bureaucratic system blended with the Javanese benevolence-obedience ideal and paternalistic relationship dominated managerial activities during the period of 1987 to 1999. He also cleverly exploited feelings of sungkan that were experienced by staff and owners of the school during the period of his successful management of the school. These conditions would eventually undermine the potential role of accounting as a controlling mechanism over the school’s managerial conduct.

As part of its modern administrative framework, every year the school conducted managerial meetings to plan routine and non-routine activities. Under the command and direct supervision of the school’s head, the planned activities accepted by the meeting were translated into annual revenues and expenditures budgets. As will be shown in subsequent chapters, the budget mechanism and the audit process was used to articulate his authority, to increase his legitimacy in the eyes of the staff and owners, and to keep those who opposed his decision out of the circle.

These assertions will be elaborated by seeking answers to the following specific questions:
1. Did accounting really work as an instrument of managerial decision making within the PBS Jakarta from 1987 to 1999?

2. If not, how was accounting used during that time?

3. How did the role of accounting in the PBS Jakarta reflect the broader practices and values of the New Order era?

4. Has the role of accounting changed within the PBS Jakarta since the demise of the New Order?

9. Organization of the study

This study is divided into eight main sections. As a starting point, the second section discusses interpretive organizational culture and control system. The discussion is directed to identify the cultural context of the control system. Next, the third section is directed to discuss the theoretical background used in the study. A new institutional theory, enriched with the Weberian closure theory and power mobilization of Hardy (1996), will be discussed to analyse the institutionalisation of the New Order Government of Indonesia into the case of the PBS Jakarta. The fourth section will address and discuss philosophical foundations that justify the method of the study used. The fifth section will explore the historical background of the case being studied – the PBS Jakarta. Furthermore, the sixth section is about building up power by the school head. This will be followed by discussing institutionalisation of accounting practices of the New Order government into the case in the seventh section. The eighth section is directed to analyse the role of accounting within the organizational control system inside the school. The ninth section addresses the role of accounting after the demise of
the New Order. Finally, the study highlights some of the key messages and implications from the case study.

10. Contribution of the Study

Understanding accounting knowledge and practice in its societal, political and cultural contexts is the main contribution of this study. Institutionalisation of the broader societal, political and cultural values and practices of the New Order government of Indonesia in organizations had influenced the way accounting was used in the PBS Jakarta as myth making and symbolic rationality. This study, accordingly, contributes to accounting knowledge in critically questioning technical – rational discourses of functionalist perspectives in accounting that narrowly focus on technical efficiency and functional approaches to the understanding of accounting.

At the organizational and practical level, a control system needs to be understood beyond its formal structural contexts due in part to socially accepted meanings that are often different from and contrary to the formal structure adopted. Political interplays between the dominant figure in the PBS Jakarta – the school head – and the school’s community used accounting – the central theme of controlling devices in a formal organizational control system – as a symbolic rationalized myth. Power and cultural interplays were, accordingly, masked with accounting information to rationally symbolize managerial decision making. In another words, to obtain social legitimacy, accounting plays a symbol of reason for decisions that have been made by the management, despite the fact that personal and paternalistic relations are the dominant factors in the daily managerial conduct.
Chapter Two

Interpretive Organizational Culture and Control System

1. Introduction

It has been demonstrated that culture has direct consequences on the control systems exercised within organizations and society, not to mention directly that the practices of accounting cannot be separated from their cultural contexts. Culture has a role in shaping social structures and institutions. In a simplistic view, Velayutham and Perera (1996, p. 69) describe the role by contrasting the Western culture vs. Eastern culture in their following statements:

Western view of the individual-social relationship is based on the primacy of the individual, and this becomes the focal point for all structures and institutions. The relationship between the individual and society is assumed to be based on contracts that an individual makes with other individuals or groups of individuals. It is also assumed that there is no generalizable societal interest apart from collective self-interest. To prevent abuse in the contractual process, the society identifies certain non-alienable rights for contracting parties. In contrast, the Eastern view of the individual social relationship is derived from family and society. The actions of the individual reflect on the family and society, and therefore the family and society place certain obligation on the individual. The actions of the individual are directed at benefiting the group as much as the individual, and an individual expelled from the group does not have an identity.

The call for study of accounting in its environmental context has been echoed by many accounting researchers (see, for example: Hopwood, 1976; Colville, 1981; Tinker et al, 1982; Tomkins and Groves, 1983; Kaplan, 1986; Cooper and Hopper, 1987) and there has been wide support within accounting research community that it is not possible to separate discussion of the role of culture from accounting practices. This
approach, which is frequently grouped under the name of alternative research, however, comprises diverse collections of research and has been invoked under many different labels that comprise a number of research perspectives. One of them is institutional theory that has been adopted into accounting research from sociology and organizational theory (Burchell et al, 1980; Berry et al, 1985; Anshari and Euske 1987; Covaleski and Dirsmith, 1988 are examples of among early adopters of the institutional theory in accounting research).

Under the institutional theory, writers have critically questioned empirically and theoretically the validity of rational choice models of decision-making in recent years (see for example: Burchell, et al, 1980; Ogden and Bougen, 1985; Berry, et al, 1985; Anshari and Euske, 1987; Covaleski et al, 1993; Carpenter and Feroz, 1992 and 2001). It has been argued that accounting is often culturally adopted as a rationalized symbol and myth in managerial decision-making instead of efficiency measurement (Scott, 1987, p. 114). Within this perspective, accounting becomes routinized, formalized, and embedded in an organization over a long period of time without justification and hence, resists changing.

This chapter is directed to describing the cultural perspectives that influence the systems to operate. It is often said that accounting is used as a symbol of legitimacy instead of efficiency measurement. Accordingly, the information provided is more inclined to be rationalized myth of decisions that have already been made rather than vise versa. Also, in order to develop a framework for the purpose of this study, research in accounting that has been done under institutional theory will be explored. The exploration concerns the way in which accounting and budgeting systems are used in
organizations. The contextual study of accounting realizes the uniqueness of certain groups of society, profit and not-for-profit organizations regarding the use of accounting information.

2. Perspectives of Organizational Culture

2.1. Concept of Culture

The concept of culture that is derived from the Latin word *cultura* which refers to tilling the soil by the early nineteenth century was being used as a synonym for the word civilization (Hofstede, 1997, p. 4-5; Thompson, 1990, p. 124). This concept that is categorized in a narrow sense of culture by Hosftede (1997) or as a classical conception of culture by Thompson (1990) was commonly adopted in most Western languages and referred to refinement of the mind “reflected in a society’s system of knowledge” (Morgan, 1997, p. 120) and particularly the result of such refinement such as education, art, and literature.

In the words of Thompson:

…the term ‘culture’ is generally used in the sense of cultivation, improvement and ennoblement of the physical and spiritual qualities of a person or people. The histories of culture thus expressed the Enlightenment belief in the progressive character of modern era, while at the same time conveying the positive connotation of ‘culture’ as the genuine development and ennoblement of the human faculties (1990, p. 125)

The broader concept of culture believes that a study of culture involves a study of meanings created, maintained, and transmitted by people (Ott, 1989, p. 181). As stated by Hofstede, as mental software, culture is seen as collective phenomena
resulting from collective programming of the mind in which “it is at least partly shared with people who live or lived within the same social environment, which is where it was learned” (1997, p. 5). It distinguishes the members of one group/organization or category of people from another.\(^1\) A similar view is expressed by Shate (1983, p. 6) who maintains that “culture is the set of important understandings (often unstated) that members of a community share in common.”

As stated by Parker (2000, p. 220), the word culture “does not come with meanings already built in or attached. Its use instead reflects the politics and epistemologies of those who use it”. Seen from the concept of social construction of reality and meaning, as mentioned by Ott (1989, p. 181), culture therefore can be conceptualized as:

1. It is a holistic set of patterned physical, psychological, and social products.
2. It is anchored in a shared body of meaning (or an ideology), views about world realities, perceptions, and values.
3. It is created by a society’s members in the course of their social interactions.
4. It determines specific patterns of behaviour and feelings.
5. It is transmitted to new generation through traditions.

Culture consequently is not inherited, it is learned from “one’s social environment, not from one’s genes” (Hofstede, 1997, p. 5). This is the reason that it needs to be distinguished from human nature and from individual personality, as Hofstede depicts the differences among the three in the following figure:

\(^1\) Hofstede’s model of culture that is drawn from national societal values as entire societies, is seen as overly simplistic primarily because “it reflects the status quo and the dominant values of the politically and socially advantaged groups within countries” (Greer and Patel, 2000, p. 310). This model accordingly tends to deny the reality of various cultures within the national boundary. Even Hofstede (2003, p. 812) himself implicitly realizes that nation states cannot be equated with national cultures.
Taking the above idea into account, there are no absolute criteria to judge whether a certain culture is lower or nobler than the others. This idea, that is called cultural relativism, as expressed by Claude Levi-Strauss, maintains that “every culture can and should apply such judgment to its own activities, because its members are actors as well as observers” (as quoted by Hofstede, 1997, p. 7). Consequently, imposing certain norms to another organization, group or society will be unlikely to succeed unless through negotiation. It is because a key feature of culture is shared ideas; meanings; values and norms within the organization group or people in common (Hopfl, 1994, p. 50) that define their appropriate attitudes and behaviours (Youngblood, 2000, p. 5).
Cultural environments will influence the behaviour of people around them. The process of adaptation, either conscious or unconscious, will lead to mutually accepted ways of conduct that can sometimes be purely ritualistic (Grandlund and Lukka, 1998, p. 188). For example, it is common that in order to comply with the cultural environments, an organization may symbolically adopt certain systems with the intention of attaining legitimacy\(^2\) (see, for example: Covaleski et al, 1993; Carpenter and Feroz, 1992 and 2001).

2.2. Levels of Culture

Culture is “socially created mechanisms” (Gelfand and Christakopoulou, 1999, p. 251) that is obviously reflected in the forms of values and practices. According to Hofstede (1997. p. 7-10), culture is practically manifested in the forms of symbols (including heroes), and rituals, whereas values that represent “broad tendencies to prefer certain states of affairs over others” (p. 8) are the core of the culture. Furthermore, Hofstede (1997, p. 8) states that the cultural practices are visible to the outsider, whereas cultural meanings as represented by the values adopted are invisible to the outsider as they are precisely laid in the way the practices are interpreted by the insiders.

Symbols that are reflected in the form of artifacts such as language, jargon, metaphors, stories, myths, legends, scripts, ceremonies and physical arrangements such as dress and décor (Ott, 1989, p. 184) and carry a particular meaning can only be recognized by those who share the culture (Hostede, 1997, p. 7). From the perspective

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\(^2\)This idea has been widely studying in accounting under the perspective of institutional theory.
of social construction of reality, symbols can be manipulated (symbolism) in order to create social/organizational change. By copying from other cultural groups, new symbols are easily developed to replace the old ones (Ibid, p. 7). In this case, the symbols\(^3\) become important because these are created by members of society and organizations “to reduce uncertainty and ambiguity, resolve confusion, increase predictability, and provide direction” (Ott, 1989, p. 184 as recited from Bolman and Deal, 1984, p. 150).

Creation of symbolic forms typically involves intentional, conventional, structural, referential, and contextual aspects. The first four aspects deal with the terms of meaning, sense and significance whereas the fifth aspect indicates that “symbolic forms are always embedded in specific social-historical contexts and processes within which, and by means of which, they are produced, transmitted and received” (Thompson, 1990, p. 145).\(^4\) In receiving and interpreting symbolic forms, individuals are engaged in a continuing process of constituting and reconstituting meaning as part of the symbolic reproduction of social contexts (Ibid, p. 153).\(^5\)

\(^3\) Institutional theory maintain that understanding organizational action needs to be grasped from the symbolic nature organizational life by studying the practices of the organizational everyday life (Dorriots and Johansson, 1999, p. 194)

\(^4\) Thompson (1990, p. 135-162) extensively discusses the symbolic forms aspects. Intentional aspect of symbolic forms represents production, construction and employment of the forms by a subject who is pursuing certain aims, and is seeking to express him/ herself of his/ her intention (p. 138). Conventional aspect of symbolic forms, on the other hand, represents production, construction, employment and interpretation of the symbolic forms by the subject who receive them in which the processes involve the application of rules, codes, or various kinds of conventions (p. 139). Structural aspect of symbolic forms refers to constructions that display an articulated structure (p. 141). Referential aspect means that as constructions, symbolic forms represent, refer to, and say something about something (p. 143).

\(^5\) Hermeneutics as argued by Wilhelm Dilthey fit to this idea. Interpretation as hermeneutics is not only getting inside an individual’s head, but also involves establishing the intellectual situation and social milieu within which the individual is working so that hermeneutics is compatible with a broader cultural inquiry (Smith, 2001, p. 197). Chapter four discusses the idea of the hermeneutics in detail.
Persons, alive or dead, real or imaginary, that possess characteristics that are highly prized in a culture and function to serve as models for behaviour, can be categorized as heroes (Hofstede, 1997, p. 8). The concept of heroes, however, has to be cautiously understood and depends on the cultural contexts in which the words are used. In individualistic cultures, heroes are “those individuals who are able to achieve their own desires and dreams, often through competition”, while in collectivistic cultures, heroes are “those who advocate sacrificing their own interests for the benefit of the group” their involved (Gelfand and Christakopoulou, 1999, p. 252 - 253).

Rituals that represent collective activities within a culture and are technically unessential in attainment of desired ends are socially essential (Hofstede, 1997, p. 8). Involvement in ritualistic behaviour is transformative in the sense that “individuals enter the ceremony in one state and leave in another” (Hopfl and Maddrell, 1996. p. 203). As observable behaviour, however, rituals do not necessarily reflect the cultural meaning that is invisible and can only be interpreted by the insiders.

Accounting systems in organizations, for instance, are often understood as rituals to reduce uncertainty and to fulfil a cultural need of certainty, simplicity, and truth in a confusing world, despite the fact that accounting information is often used to justify decisions that were taken for non-logical reason in the first place (Hofstede, 1997, p. 155; Gambling, 1977, p. 141-151). In that case, it has become naturalized as hegemonic, accepted as “normal” and taken as conceptual maps of meaning to make sense of the organizations. This is a myth that functions as symbolic guide of meaning and significance (Barker, 2000, p. 69-70 and p. 387).

For extensive discussion about cultural effects of individualism – collectivism, see Chen et al. (1998).
Values that are conscious, affective/emotion-laden desire (Ott, 1989, p. 39) and have a plus and a minus side such as good and bad (Hofstede, 1997, p. 8) closely relate to the ideals shared by a group of people or organizations (Trompenaars and Hampden-Turner, 1998, p. 22). The values represent the core of a culture as criteria or standards of preference (Williams, 1979, p. 16) and as a result these will influence the perception of symbols and rituals (Watson, et al, 2002, p. 923). These are among the first thing people unconsciously learn that can only be directly observed through the way the people act in various circumstances (Hofstede, 1997, p. 8).

It is values that give people a feeling of desire to behave or a criterion to choose among existing alternatives. The concept of right or wrong within a group of people, for instance, needs to be seen from the group’s ideal shared that is called the desirable\(^7\) values (Trompenaars and Hampden-Turner, 1998, p. 22; Hofstede, 1997, p. 9). These are some kind of basic assumptions that determine the worldview of a group of people or societies. Understanding these basic assumptions therefore is necessary to possibly understand cultural meanings that are ascribed to cultural expressions (Schultz and Hatch, 1996, p. 541).

Socialization through dominant groups and learning experience is the way individuals acquire values. Borrowing Schwartz’s idea, Watson et al (2002, p. 924)

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\(^7\) In discussing values, it has to be distinguished between the desirable and the desired. The desired is the nature of norms, a mutual sense a group has of what is ‘right’ and ‘wrong’ that may develop on formal such as written laws as well as informal levels in the form of social control, whereas the desirable relates to group’s ideal shared (Trompenaars and Hampden-Turner, 1998, p. 21-22). Stated differently, norms are a standard of values that exist within a group of people (Hofstede, 1997, p. 9-10). In case of the desirable, the norm is absolute, while in case of the desired, the norm is statistical as a result of choices that have been done by the majority.
assert that cultural values may take cognitive form as people respond to their
environment and express their responses in the language of specific values to
communicate. It is values that guide cultures as characterized by their collective

2.3. Organizational Culture

In accordance with the concept of culture previously explained, organizational culture
usually refers to “a set of shared understandings, values, and beliefs which implicitly
inform behaviour, provide members with a sense of identity, and are symbolically
embodied and expressed through ceremonies and rituals of various kinds as well as in
more mundane ways through policies, guidelines and procedures” (Hart and
Hazelgrove, 2001, p. 257; see also, Morgan, 1997, p. 129-131). Practically, it involves
almost all aspects of the organization from how the organization is designed, how
people within the organization relate and communicate with one another, what is
accepted as true, what is considered important, the criteria to use for decisions, how to
treat customers, and countless other factors (Youngblood, 2000, p. 5).

By establishing norms for proper and improper behaviour and performance
(Dent, 1991, p. 706), disseminating symbols (i.e., myths) that are stuffed with rituals
(Martin et al, 1983), a culture is being built into organizations. This is in accordance
with the concept of organizational culture employed by Deshpande and Webster (1989,
p. 14) that refers to “unwritten, the formally decreed, and what actually takes place; it is
the pattern of shared values and beliefs that helps individuals understand the
functioning of the firm and thus provides the norms for behaviour in the firm”. Its focus
accordingly is on informal forces within an organization that tremendously influence
the behaviour of people more than formal forces.

Formal systems that operate within organizations, thus are often not purely
technical-rational affairs as communities within the organizations have particular codes
of communication that are embedded in “a cultural system of ideas (beliefs,
knowledge) and sentiments (values), in which actions and artifacts are vested with
symbolic quality of meaning” (Dent, 1991, p. 706). Unavoidably, accounting practices
are likely to be implicated in organizational cultural systems (Meyer and Rowan, 1977)
as a symbolic rationality and thereby are myths (see, for example: Berry et al, 1985;
Covaleski and Dirsmith, 1988; 1993).

In case there is no value consensus as a result of inequality or heterogeneity, a
variety of subcultures\(^8\) will be easily distinguished in which different sets of values
serve as sensible devices for different groups of people who co-exist within one
organization (Dawson, 1996, p. 152-153). Myths and rituals as artifacts in this
perspective are “generative processes that yield and shape different meanings for
diverse groups” (Ibid, p. 153). In a survival crisis situation, for example, cultural
change cannot accurately determine whether it will be supportive or destructive toward
management’s action due to any number of contradictory among sub-cultures in the
organization (Thomson and Wildavsky, 1986).

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\(^8\) Parker (2000, p. 86) rejects the use of subculture on the reasons that it is primarily based on class
stratification and assumes an unnecessary, homogeneity and consensus within both the dominant culture
and its subordinate variants.
Within the perspective of organizational leadership, culture is also exercised to legitimate power. To reduce conflict, a leader often emphasizes consensus and cooperation by using such terms as ‘associates’, ‘team member’, players’ and ‘coaches’ (Appelbaum et al., 1999, p. 236). In this case, managerial control is reinforced through language of the team efforts and consequently it will often be used to de-legitimize and marginalize individuals who oppose the empowerment (Appelbaum et al., 1999, p. 236) or to remove them either voluntarily or involuntarily (Ott, 1989, p. 93-94). Power is maintained and legitimized by managing and controlling cultural meaning without necessarily having to use coercive approaches to ensure that the organizational goals are met. This kind of organizational culture is closely associated with power culture and person culture (Handy, 1978). 9

Culture is located in the minds and hearts of people in the forms psychological structures to guide behaviour of individuals or groups of individuals (Abdul-Rahman and Goddard, 1998, p. 184). It consists of socially established structures of meaning that function as people’s reference to act and interpret their own behaviour and others. It is accounted for as a context within which “interpretations of organizational identity are formed and intentions to influence organizational image are formulated” (Hatch and Schultz, 1997, p. 357).

The meanings of accounting practices, for example, are constructed by the social contexts and settings within which they exist (see, for example: Dent, 1991;

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9 Handy (1978) categorizes organizational culture into four classifications, namely power culture, role culture, task culture, and person culture. The power culture is characterized by concentration of power at the top of the organizational hierarchy. The role culture is based on a strong leadership style. The task culture is project oriented that as a team culture places emphasis on groups in which rewards are evenly distributed. The person culture emphasizes the most important attribution to people of an organization.
Chapter 2 – Interpretive Organizational Culture and Control System

Covaleski and Dirsmith, 1986). As a cultural medium, accounting represents collective rationalities that are less than “rational” (Chua, 1988, p. 68). It is both constitutive and reflective of organizational reality and culture as rituals (Gambling, 1987) and myths of fictional accounts of the world to create legitimacy required by the agencies of the modern world (Meyer, 1983, p. 235; Hopwood, 1983, p. 295).

Social networks become important media in communicating and maintaining the culture of the organization (Krackhardt and Kilduff, 2002, p. 281). The networks become the vehicle through which cultural meaning is communicated to people within the organization. The communication is directed to increase attention to an organization’s ideals, norms, and values and to recognize symbolic aspects of managerial practices. The process will create an appropriate organizational culture that will enhance organizational effectiveness (Gummer, 1990) and improve financial performance (Rodsutti and Swierczek, 2002, p. 252).

In summary, it is appealing to quote Ott (1989, p. 50) who briefly describes organizational culture as follows:

- Organizational culture is the culture that exists in an organization, something akin to a societal culture.
- It is made up of such things as values, beliefs, assumptions, perceptions, behavioral norms, artifacts, and patterns of behavior.
- It is socially constructed, unseen, an unobservable force behind organizational activities.
- It is a social energy that moves organization members to act.
- It is a unifying theme that provides meaning, direction, and mobilization for organization members.
- It functions as an organizational control mechanism, informally approving or prohibiting behaviors.
2.4. Managing Organizational Culture

Depending on the point of view adopted, management of culture may be seen differently by different viewers. There are three points of view identified in managing culture in organizations (Ogbonna and Harris, 1998, p. 274; Harris and Ogbonna, 2002, p. 33-34). The first view comprises studies which believe that culture can be managed as an organizational variable. This perspective logically assumes that culture can be changed. According to Smircich (1983, p. 347), culture as an organizational variable in fact is quite compatible with functionalist paradigm\(^\text{10}\) which is directed for “predictable means for organizational control and improved means for organization management”.

The basic purposes of management to direct and control culture (Ogbonna and Harris, 1998, p. 274) make the issue of causality is critically important.

The second view, on the other hand, rejects culture as a directly manageable variable by arguing that culture is not something the organization has but is more suitably conceptualized as something the organization is (Smircich, 1983, p. 347). Albeit culture cannot be managed, under certain circumstances such as during organization’s formation, periods of crisis, and leadership turnover of an organization, it can be manipulated (Ogbonna and Harris, 1998, p. 274). Organizations need to be analyzed in economic terms as well as in their expressive, ideational, and symbolic terms in order to explore “the phenomenon of organization as subjective experience and

\(^{10}\) The functionalist paradigm is introduced by Burrell and Morgan (1979) to characterize a research that is ontologically dominated by a belief in physical realism in which according to Tinker et al (1982) the reality exists independently of the social actors and social practices. Methodologically, the paradigm adopts “positivism which is directed to explain and predict social phenomenon by searching for regularities and causal relationships between its constituent elements” (Wahyudi, 1999, p. 102; see also Burrell and Morgan, 1979; Christenson, 1983). This perspective, however, has been widely criticized as neglecting the complexity of social phenomena. In the words of Covaleski and Aiken (1986, p. 310), this tradition “have taken the contributions and potentialities of accounting practices for granted.”
to investigate the patterns that make organized action possible” (Smircich, 1983, p. 347-348).

The third view rejects the previous views based on the argument that “the direction, impact and sustainability” of organizational cultural changes “cannot be subject to conscious action of management” (Ogbonna and Harris, 1998, p. 274). Efforts to change culture often deteriorate into changes to behaviour. This frequently leaves higher level of culture untouched (Ogbonna and Harris, 1998, p. 274) because culture is deeply embedded at an unconscious level that accordingly is untouchable by management intervention techniques (Harris and Metallinos, 2002, p. 202). In other words, it is difficult to conceptualize and consequently it is operationally impossible to be intentionally intervened by management (Harris and Ogbonna, 2002, p. 34).

In accordance with the broadly defined culture adopted by this study in which culture comprises values/norms and practices, however, manipulation is frequently possible\(^{11}\) (Harris and Metallinos, 2002, p. 203). People have a tendency to adapt either consciously or unconsciously to their cultural environments with the intention that their behaviour would not extremely differ from that of others around them.\(^{12}\) This adaptation that is “leading to mutually accepted ways of conduct” can sometimes be purely ritualistic (Grandlund and Lukka, 1998, p. 188) in order to gain social legitimacy.

\(^{11}\) The concept of loose-coupling in institutional theory that is discussed in chapter three in which an organization maintains its formal structure without necessarily having to compromise its actual practices (Meyer and Rowan, 1977) implicitly rejects the notion that culture cannot be manipulated.

\(^{12}\) The idea is in line with institutional theory in which people; organizations tend to copy their behavior in accordance with the institutionalized values, norms, and practices of their environment to get legitimacy through the process of mimetic, normative or coercive isomorphism (DiMaggio and Powell, 1983). This idea is discussed further in detail in chapter three.
This study believes that despite its complexity, culture is malleable and can be manipulated under certain organizational conditions. It has to be understood that unlike societies and ethnic groups, formal organizations face the fact that participants involved (i.e. employees) come and go more quickly. Besides their enculturation to the organizations is not primary but through a secondary process of socialization (Berger and Luckman, 1967). The process can be managed in order to intensify employees’ enculturation “through stories and myths and by modeling patterns of behavior that new members must piece together like jigsaw puzzles in order to discover the basic assumptions lying beneath them” (Ott, 1989, p. 42).

Cultural transmission as it is called by Harrison and Carroll (1991, p. 554) deals with cultural persistence in formal organizations on the reason that “organizations and their managers have some controls over the main factors that apparently affect transmission: recruitment, socialization, and turnover” of employees. Inherent in this view is a notion that albeit it cannot be managed, culture within an organization can be manipulated. Employees’ interaction as a kind of socialization, according to Shate (1983), becomes media through which new members of an organization obtain culture. Any attempts at cultural change must be focused on the means of maintenance (Ogbonna and Harris, 1998, p. 274) given that culture transforms as a result of socialization and employee turnover within an organization.
3. Organizational Control Systems

Organizations are composed of people with their own personal interests. To attain organizational objectives, the organization has to integrate the people’s efforts and direct them toward the specific objectives. This is the essence into which organizations must influence or control the behaviour of people inside. Control as used here, accordingly refers to all organizational arrangements – formal and informal designed to accomplish organizational objectives (Ansari and Bell, 1991, p. 4).

The arrangements that include formal structure, planning and budgeting, operational controls, and rewards systems are directed to control the behaviour of people in formal organizations. These comprise a combination of techniques including rules, standard operating procedures, job descriptions, budgets, accounting measurements, and performance appraisal systems (Flamholtz, 1983, p. 154; 1996, p. 596). Taken together, these techniques are part of systems called ‘the organizational control systems’ (Flamholtz, 1996, p. 596).  

Accounting possesses a key role in mediating all these activities. As a result, it becomes the central theme as controlling devices within the system. The accounting information defines the performance criteria and the kinds of visibility that become important social concerns (Mouritsen, 1989, p. 23; Robert and Scapens, 1985). Morgan (1997) depicts these organizational process operational characteristics as machine metaphors in which organizations have mechanistic systems that operate efficiently and

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13 The control perspective described above is functionalist in nature as adopted from organizational theory that is reproduced from positivistic epistemology. Consequently, behavior that does not support the system is likely to be classified as dysfunctional to the organization (Marginson, 1999; Otley and Berry, 1994; Neimark and Tinker, 1986).
predictably. Since the organizations resemble machines, budgets and accounting performance indicators play an important controlling role for management in order to measure organizational performance (Atkinson, 1992, p.17). The intention is to maintain the systems by promoting organizational goals, stability, adaptability and survival (Sisaye, 2001, p. 40).

Flamholtz (1996, p. 599) calls the system a core organizational control system that comprises five basic organizational processes: planning, operations, measurement, feedback and evaluation-reward. Variance reports therefore are treated as a punitive fashion to impose budgets (Armstrong, 1989, p. 32). Unit of organization’s responsibility in which managers should only be held responsible for activities that they can directly and unambiguously control is measured by using accounting indicators in the form of a responsibility accounting concept. As mentioned by Merchant (1997, p. 231), a good management control systems encourages action “by spotting the significant variations from the original plan and highlighting them for the people who can set things right.”

Other parts of organizational control systems, according to Flamholtz (1996), are organizational structure and organizational culture. Organizational structure functions as a control mechanism “by specifying the behaviors expected from people in the performance of their roles, as well as by specifying the authority and reporting relationship of the entire set of roles which comprise the organization structure, per se” (Flamholtz, 1996, p. 603). The structure formally describes the control structure within the organization ranging from determination of the degree of centralization or decentralization and a span of control needed.
Culture, as a set values and practices, will influence thoughts and actions of organization’s members - within this functionalist control system, as Flamholtz (1996, p. 604) explicitly mentions - is seen as variable and it is subject to design and can be a product of managerial decision. It can be designed to control people’s behaviour within organizations (Payne, 1991; Ott, 1989). In this case, there are many important aspects that culture has to deal with. The aspects comprise “delegation of power, authority and responsibility, creation of a system of rewards and sanctions for different behaviours, setting of purposes and goals, and the identification of the social group with these purposes and social processes” (Swe and Kleiner, 1998, p. 67).

The basic premises of the functionalist approaches to organizational control systems are to “impose a priori assumptions of what should be measured to achieve control” while in practice, control is defined and very much depends on the perspectives of those who design the control systems (Goddard and Powell, 1994, p. 50). Consequently, different perspectives may define performance differently so that the acceptability of the performance is defined by the control system.

The functionalist model for that reason unfortunately neglects the political drive inherent within the concept of budget allocation decisions as mentioned by Boland and Pondy (1986). The control systems adopted hardly consider the power control resource allocation mechanisms that exist within organizations (Sisaye, 1997, p. 39). Within the interpretive perspective, accounting is used to create symbols and meanings to achieve control (Hopper and Powell, 1985). It has to be added that the interests of those in a
decisive position to select and operate accounting control systems – senior management – might also affect the nature of the systems themselves (Armstrong, 1989, p. 33).

Neimark and Tinker (1986) explicitly call the functionalist organizational control systems orthodox control systems. The systems are directed to match the environment and corporate control system that comprises organization structure, technologies and strategies to achieve the desired performance criteria in the forms of profit satisfaction, efficiency, cost minimization, and viability (Neimark and Tinker, 1986, p. 370; Marginson, 1999, p. 226).

However, Neimark and Tinker (1986, p. 370-377) criticize the model as lacking a socio historical perspective; lack of feedback mechanism on the reason that the model “is framed in terms of a dependent variable (performance) and two independent variables (environment and control system) and fails to recognize that each variable can be regarded as either dependent or independent, depending upon the researcher’s perspective” (Ibid, p. 372); separating environment from control system; failing to recognize the complexity of social environment; viewing performance as non-problematic; and founded on positivistic epistemology.

The system that has been structurally and culturally institutionalized may be unquestioned by various vested interests for years on the reasoning of objectivism. However, “the ongoing processes by which institutional arrangements are formed and transformed tend to be highly political” (Covaleski et al, 2003, p. 324) and are often symbolically adopted without necessarily being used in decision making processes (Oliver, 1991; DiMaggio and Powell, 1983). In the words of Meyer (1990, p. 64), “the
artificiality of the decision – its ritualistic aspect as a core element of extreme cultural emphases on rationality – creates an emphasis on rational form that dominates rationality in content”. Accounting has turned into myth of the rationalistic organizational decision. Therefore, its role is often “to legitimate individual and organizational behaviour (rather) than to support efficient and rational decision making” (Power, 2003, p. 379).

Cultural and institutional studies in organizations have been indicating the decoupling of organizational practices from their formal organizational control systems in order to be seen as legitimate (see for example: Oubrahim and Scapen, 1989; Carpenter and Feroz, 2001). Taking the words of Meyer and Rowan, decoupling in the forms of a great gap between formal and informal organization is seen as that:

…structural elements are only loosely linked to each other and to activities, rules are often violated, decisions are often unimplemented, or if implemented have uncertain consequences, technologies are of problematic efficiency, and evaluation and inspection systems are subverted or rendered so vague as to provide little coordination. (1977, p. 343)

Hence, the decoupling as a natural reaction by organizations that are subjected to rationality contexts (Meyer and Rowan, 1977; Oliver, 1991; Johansson, 2003) is related to the demand for social legitimacy of the organizations. Legitimation according to Berger and Luckman (1966) as narrated by Chatterjee and Bailey (1993, p. 6) requires a four-step process: 1) using a certain word at a linguistic level; 2) prescribing appropriate behaviour for the word used at an aphoristic cultural level; 3) the words and aphorisms lead to socially sanctioned roles and expectations to conform to these roles at an institutional level; and 4) “the infrastructure of the roles are give legitimation and normative dignity” at an ideological level.
These processes, according to Meyer and Rowan (1977, p. 348), may be done through powerful organizations that actively influence their immediate relational networks to adapt to their structures and relations, and/or attempt by the powerful organizations to build their goals, procedures, and practices directly into society as institutional rules. Legitimacy, hence, is cultural as it is a set of constitutive beliefs wherein “external institutions construct and interpenetrate the organizations in every aspect” (Suchman, 1995, p. 576).

Organizational language as a label, such as organizational structure and procedures, becomes the important aspect of legitimation within the institutional perspective. Vocabularies of structures provide rational and legitimate accounts that are assumed to be collectively defined. An organization is judged as negligent and irrational if it fails to incorporate the proper elements of the structures (Meyer and Rowan, 1977, p. 350). The structures serve and function as easily monitored proxies for less visible targets of evaluation (DiMaggio and Powell, 1983). Socially accepted techniques and procedures such as accounting as a rationalized myth may also demonstrate that “the organization is making a good-faith effort to achieve valued, albeit invisible, ends” in the absence of straightforward outcomes (Suchman, 1995, p. 580).

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14 Suchman (1995, p. 577-585) defines three types of legitimacy, namely pragmatic legitimacy; moral legitimacy that can be divided into consequential legitimacy, procedural legitimacy, structural legitimacy and personal legitimacy; and cognitive legitimacy. He asserts that all types of legitimacy involve a generalized perception that organizational activities are desirable, proper and appropriate within certain socially constructed system of values, norms, beliefs and definitions with a somewhat different behavioral dynamic (1995, p. 577).
4. Accounting and Institutional Change

It has been strongly viewed that institutional change in the form of adoption of new accounting system and/or reporting practices, will improve the productivity and efficiency of public sector organizations (Ansari and Euske, 1987, p. 550). Unfortunately, observed from the perspective of institutional theory, this is not always the case. Institutional change may reflect organizational struggle to maintain its legitimacy to a wider society as well as reflect the competing power and interests of the organizational stakeholders. The decisions to change accounting systems and practices need to be analyzed within the frame of social and political context in which these decisions are made.

Carpenter and Feroz (1992), for example, argued that the decision by the New York state government to institutionalize GAAP was intended to get access to the capital market. To enter the market, the state needs to use a legitimized symbol accepted by the market, namely external financial reporting based on GAAP. It is within this perspective that the adoption was obviously to produce a symbol of legitimacy to enter the market.

Their recent study (Carpenter and Feroz, 2001) tends to support the previous study. They identified that within the perspective of institutional theory, normative and coercive pressures play a significant role in the adoption of GAAP by state governments. The first pressures were represented by the active participation of key administrative accounting/auditing personnel in professional organizations. This result confirms DiMaggio and Powell’s idea (1983) that professionals as well as nation states
have become the primary modern shapers of institutional forms. The second pressures that came from market and political forces were seen in the forms of reliance on credit markets for financial resources, potentially to alter power of relations of elected officials and change in elected political leadership (Ibid, p. 592).

Institutional change also often reflects power struggle and conflicts of interest of different groups of stakeholders of organizations. Despite the disagreement among institutional theorists on the extent to which the interests and power have to be incorporated into the theories of institution\textsuperscript{15}, power and conflicts that reflect competing interests between various constituencies are frequently emphasized by accounting research informed by institutional theory (see, for example: Covaleski \textit{et al}, 1993; Abernethy and Chua, 1996; Vaivio, 1999; Collier, 2001; Modell, 2001; Soin \textit{et al}, 2002). Burns and Scapens (2000, p. 22) emphasize this issue by saying that “although institutions shape behaviour, institutions are themselves the outcome of the actions of individual members of the organization”.

Covaleski and Dirsmith, in their case study of relationships between the University of Wisconsin and the state government, concluded that the interrelationship between political and institutional forces of conformity “as expressed through the budget appear to be infused with power and self-interest within the organizations and in extra-organizational relations” (1988, p. 585). Ritti and Silver (1986) also demonstrated that in its early history, the Bureau of Consumer Services (BCS) utilized the symbols displayed to deal with a variety of external constituents - the state legislature, the

\textsuperscript{15} DiMaggio (1988) and Oliver (1991) maintain that institutional theory has only implicitly given little attention to these issues, while Scott (1987a) believes that they become the core of institutional analysis. Chapter three discusses further this controversial issue in detail.
regulatory commission and press - for its own interest. The bureau actively manipulated the symbols by developing a ritualistic pattern to enhance legitimacy for its own survival and growth. The manipulation was achieved by utilizing a compromising rhetoric.

Therefore, accounting as “legitimacy-seeking and efficiency-enhancing rationales (that) forming part of senior management rhetoric” blends together (Modell, 2001, p. 457). Reflecting active responses in adopting such structural attributes (see, Abernethy and Chua, 1996), pro-active mimicking is more dominant rather than passive acquiescence as suggested by Oliver (1991). In highly institutionalized fields, mimetic processes actively occur providing the macro structures are in line with the interests of the key organizational actors involved. For example, in the extreme regulative environment of the Indonesia’s New Order, the head of the PBS Jakarta enthusiastically engaged in institutionalizing the New Order values and practices to support his domination despite his maneuver to decouple certain values and regulations that contradicted his interests to dominate the school from their actual practices.

Inside organizations, power struggle is related to the contesting self-interest among people within the organizations. For example, powerful actors may ascertain their self-interests mostly represented within the organizational goals. However, power needs to be analyzed as a chain concept of organization in which “actors are simultaneously exercising and being subjected to power” (Ezzammel, 1994, p. 217). Accounting and budgeting systems, for example are not created and imposed solely by superiors since they themselves are subject to the one as much as their subordinates.

16 Chapter three discusses in detail Oliver’s idea about managerial responses to institutional processes.
Consequently, all organizations simultaneously exhibit two-dimensional forms, namely heterogeneity and homogeneity (Ibid, p. 218).

5. Symbols, Ritual and Myth of Accounting

Scholars who are interested in observing the role of symbolic, ceremonial and ritualistic influences on the structuring of organizational control systems (see for example: Boland and Pondy, 1983; Anshari and Bell, 1990; Lapsley, 1999; 2001; Lapsley and Pallot, 2000) have been continuously questioning the notion that control systems arise from “technical-rational” considerations (Anshari and Bell, 1990). Asserted by Meyer and Scott (1992, p. 2), organizational structures and managerial practices may flow from “…organization to organization, sector to sector and even country to country… Ultimately, they are taken for granted by individuals and organizations as the right way to do things”.

Management control systems that have become culturally embedded organizational identities represent a “self-reflective product of the dynamic processes of organizational culture” and provide “symbolic material from which organizational images are constructed and with which they can be communicated” (Hatch and Schultz, 1997, p. 361). This section will discuss existing studies about the use of accounting data as an important part of organizational control systems in its organizational settings within either socio-political or institutional perspectives.

Chua (1988, p. 70) asserts that by comparing accounting process to rituals and myths implicitly assumes there is some “objective/correct” perspective that is used as
“a bench-mark for adjudicating between competing versions of reality”. Rejecting this notion, this study believes that accounting becomes ritual and myth on the basis that consensus among competing interests exists within organizations that determine the concept of rationality. The reality as to what the rationality is can be inter-subjective as it is a socially constructed reality as well as positional in the form that it is a politically constructed reality (Jones, 1992).

As inter-subjective reality, the rationality of accounting is framed and determined by the social values and norms of society that are achieved through the process of power struggles among differing interested parties within the society. Seen from this perspective, accounting is always value-laden, not value-free. However, Lapsley and Pallot (2000, p. 217) mention that “accounting rules and procedures can present as impersonal rules for the rational pursuit of the organization’s aims, which are so institutionalized that they are taken for granted and are beyond the discretion of individual members of the organization”.

Accordingly, when accounting is accepted by society as legitimating devices and is adopted by organizations in order to be judged as legitimate by society, it is likely that accounting systems will decouple from actual practices. The organizations seem to adopt the system, but in practice it is more ceremonial than substantive. Meyer and Rowan (1977, p. 344) articulate this situation as follows:

... Technologies are institutionalized and become myths binding on organizations. Technical procedures of production, accounting, personnel selection or data processing become taken for granted means to accomplish organizational ends. Quite apart from their possible efficiency, such institutionalized techniques establish an organization as appropriate, rational and modern. Their use display responsibility and avoids claims of negligence.
Berry et al (1985) found that instead of financial planning and control systems; physical production planning appeared to be the dominant mode of organizational control within the NCB. As loosely coupled control mechanisms, accounting norms of rationality and efficiency are followed to impress external bodies and internally help managers cope and legitimize coping with superiors. Ouibrahaim and Scapens (1989) found a similar answer that accounting did not have a significance impact on managerial practices in socialist enterprises in Algeria. The information is produced to satisfy the demand of external state agencies to be perceived as having economic planning required by management of socialist enterprises code.

Related to the above findings, organizations have a tendency to behave to a certain extent differently from stereotypes depicted in the textbooks regarding organization structures, information systems, planning and control systems (Meyer and Rowan, 1977; Burchell et al (1980). In other words, there is a tendency for differences between the formal systems adopted with the daily managerial practices. Informal forces therefore seem more dominant as a motivating force in influencing behaviour of people rather than the formal forces within organizations.

6. Concluding Remarks
Accounting that becomes an important aspect of organizational control systems may be viewed as legitimizing means within the context of the political and social environment of organizations (Cooper, 1980, p. 164). The nature of accounting procedures apparently unobtrusive and routine has generated a notion of objectivity in front of
external users of financial statements (Hopwood, 1983). However, far from being objective, accountants can and do take sides in social conflict (Tinker et al., 1982) that may benefit certain sections of society at the expense of others.

Control systems are framed by the societal and cultural environments in which the systems operate. The rationality of the systems is determined by the interactions of people within organizations and the organizations with their environment – that is called inter-subjective rationality. Organizational legitimacy is determined largely by its compliance with the accepted societal and cultural norms and values. Decoupling of a formal system from its actual practice consequently is obvious in order that the organizations be judged legitimate.

Societal and cultural environments in this case function as a set of control mechanisms to the organization usually called an informal control system. It becomes the dominant mode in influencing behaviour of people inside organizations. Formal organizational control systems and accounting have symbolic and ritualistic connotations that have an ambiguous and complex set of meanings more than the objects themselves (Alvesson, 2002, p. 4).

Interpretive organizational control systems described in this chapter, consider accounting as value laden. Within this perspective, rather than seen as a passive object, accounting is implicated in constructing social reality. Accordingly, accounting cannot be separated from its political, social and cultural contexts. This belief is fundamental in providing explanations to decide and develop a theoretical research framework in chapter three that will be used by this study. The ideas of institutional theory, as is used
in this study and will be explained in the next chapter, believe the tendency of an organization to either voluntarily or forcefully adopt or adjust its structures and practices in accordance with its wider political, social or cultural environments in order to enhance legitimacy. The adoption, therefore, tends to be symbolic and ceremonial rather than real in which its formal structure is likely to decouple from its actual practice due to attribution of rationalized procedures and rules to political, social or cultural rather than technical processes.
Chapter Three

Theoretical Propositions

1. Introduction

This chapter establishes a theoretical viewpoint to interpret the use of accounting in the organizational control system in PBS Jakarta. As already mentioned in the first chapter, the use of accounting in the modern state of Indonesia cannot be separated from the role of New Order government under the Suharto era. Institutional theory provides a theoretical framework for analyzing the process through which the organization relates to its environment, in this case, to the New Order government and its reasons for adopting the Order’s structures, culture and routines. Furthermore, the theory implies that “the interests, objectives, and actions of those external to any given organization may be critically important in understanding accounting choice” (Carpenter and Ferroz, 1992, p. 620).

The usefulness of incorporating Weberian perspectives, particularly closure theory which focuses on concepts of class, status groups and parties is used to analyze the struggle to hold power and resources among the interest groups within the PBS Jakarta. As suggested by Weber, the plurality of contending groups of classes, status groups, and parties within organizations, whose economic, social and political interests could differ and overlap, is a “multiple-sided process of conflict on many fronts” (Chua and Poullaos, 1998, p. 159) that involves a power struggle inside. A theory of power concerning power mobilization is needed to analyze the struggle.
2. The Genesis of Institutional Theory on Organization

Although institutions were identified and analyzed quite early by economists, political scientists and sociologists from the middle of last century, “organizations, as distinctive types of social forms, were not distinguished conceptually until relatively recently” (Scott, 1995, p. 16; Powell and DiMaggio, 1991; DiMaggio and Powell, 1983; Zucker, 1977; Meyer and Rowan, 1977). The early efforts of institutional studies on organizations can be traced back to the early efforts by the translation of Weber’s work on bureaucracy into the English language. The translation stimulated many studies on organizations among sociologist at Columbia University, the Parsonsian institutional approach, the work of Simon (1945/1957) at Carnegie Mellon University and his collaboration with March in 1958 and cognitive theory in social psychology (Scott, 1995, p. 17-22).

New Institutionalism developed during the mid-1970s across the social sciences. A successful effort to introduce institutional arguments into organizational sociology was made by Meyer and Rowan (1977) and Zucker (1977). Building on the institutional conception of Berger and Luckmann (1967), Meyer and Rowan (1977) believed that organizations were a result of rationalization of cultural rules functioned as myths which were adopted at the expense of organizational efficiency. Meyer and Rowan (1977, p. 341) said that “to maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities”. Therefore, Meyer and Rowan concentrate on a
Chapter 3 – Theoretical Propositions

macro perspective of organizations by emphasizing the impact of changes in the wider institutional environments on organizational forms.

DiMaggio and Powell (1983) developed and elaborated further this perspective by identifying three important institutional mechanisms - coercive, mimetic and normative through which institutional norms took effects on organizational fields. They emphasize structural similarity (isomorphism) as a result of competitive and institutional processes. Meyer et al (1992) added the macro perspective by suggesting that although technical and institutional forces shape organizations, certain types of organizations are more subject to one than the other.

Zucker, on the other hand, emphasizes the micro perspective of institutions. She claims that institutional isomorphism among organizations often focuses on the content rather than the process of institutionalization. A micro-level approach focuses upon “institutionalization as a process rather than as a state; upon the cognitive processes involved in the creation and transmission of institutions; upon their maintenance and resistance to change; and upon the role of language and symbols in those processes” (Zucker, 1991, p. 104). Thus, a micro perspective of institutions emphasizes the power of cognitive beliefs to anchor behaviour.

3. Institutional Theory and Institutionalization

Institutional theory as a way of looking at organizations draws its name from the existence and importance of objective and exterior social knowledge to organizational behaviour (Fogarty, 1992, p. 332). It is assumed that the primary determinant of
organizational structure is pressure exerted by external and internal constituencies on the organization to conform to a set of expectations (Brignall and Modell, 2000, p. 288). An institution, as a product of institutionalization, is described as an organized, established, procedure often represented as the constituent rules of society that are experienced and analyzable as external to the consciousness of individuals (Jepperson, 1991, p. 143). In a more practical way, it is defined as regulatory structures, governmental agencies, laws, courts, professions, interest groups and public opinions (Scott, 1987a, p. 498-499; Oliver, 1991, p. 147) that have the ability to exert pressures on organizations and their members (Wicks, 2001, p. 663).

Therefore, since organizations exist in a social environment, with their predictable sequences of action and reaction (Oliver, 1991, p. 146-148), the theory primarily concerns cultural and social behavioural influences that construct rules, values and norms to provide legitimacy for the organizations when complied with (Wicks, 2001, p. 662). These social systems provide a source of legitimacy in the forms of social approval for organizations to maintain their activities (Fogarty, 1992, p. 333). In this case, organizational structures, therefore, become “reflections of rationalized institutional rules (Meyer and Rowan, 1977, p. 340), “symbolic displays of appropriate conformity” (Scott, 1987a, p. 507), and “shared knowledge and belief systems” (Scott, 1995, p. 13). Adopting structural attributes displayed by other significant organizations occasionally manifests gaining legitimacy through an alignment with rationalized institutional myths.

The institutionalization of an organization depends upon its perceived legitimacy. In Ritti and Silver’s point of view (1986, p. 27), it depends on the ability of
the organization to design the myth about itself and that, once created, this myth becomes part of the stock of a “thing taken for granted” within the current organizational culture. Accordingly, it is believed that a common means of gaining legitimacy is alliance with some rationalized institutional myth (Meyer and Rowan, 1977) occasionally manifested by the adoption of structural attributes displayed by other influential organizations through the process of isomorphism (DiMaggio and Powell, 1983).

Meyer and Rowan (1977) emphasized the role of rationalized belief systems in providing a structure for meaningful interactions and acceptable patterns of behaviour. “Symbolic elements of institutions are contained in socially constructed systems of shared meaning and it is through these elements that social control is exerted on organizations and in their decision making processes. (Accordingly), the symbolic functions of institutions are imposed upon organizational form and action through regulatory mechanisms or processes” (Nicolaou, 1999, p. 132 - 133).

Accounting, for example, symbolizes a rational tool for the managerial decision-making process taken within the organization. Accounting as a technical-calculative approach, highlights the meaning of rational tools in modern capitalist society (Weber, 1978), and thereby it is objective. Due to this perspective, accounting numbers often used as symbolic considerations in managerial conduct are to be seen as rational and objective. Accounting has become a myth that cannot be tested objectively but is rationalized through the establishment of rules that have little to do with technical or economic efficiency (Scott, 1987, p. 114).
As a construct of the social environment, “institutionalization guides the way activities, processes, cultural events and organizations become accepted as ‘institutions’ and become viewed as normal and expected in everyday society” (Roggenkamp and White, 2001, p. 1060). Jepperson (1991, p. 150) points out that the process can be delivered through formal organization, regimes, and culture. Accordingly, structures, processes and roles become routinized, formalized and embedded in the organizational fabric and are self-maintaining over long periods of time without justification, and resist change (Zucker, 1987, p. 446).

Since institutionalization has been defined as “the process by which actions become repeated over time and are assigned similar meanings by self and others” (Scott, 1987a, p. 495), institutional theory emphasizes the pressure and constraints of the institutional environment. Institutional theorists recognize that organizational participants can be constrained by institutional arrangements that limit the choice of variables, restraining certain patterns of resources allocation and prohibiting certain courses of actions (DiMaggio and Powell, 1983). It can be inferred that institutional theory sees formal structures of organizations as a reflection of the myths of their institutional environments (Meyer and Rowan, 1977, p. 341) that were built into society as a “reciprocal typification of habitualized actions by types of actors” (Burger and Luckmann, 1967, p. 54). “Such rules may be simply taken for granted or may be supported by public opinion or the force of law” (Meyer and Rowan, 1977, p. 341).
4. Institutional Isomorphism

Weber (1978) contended that bureaucracy, the rational spirit of the modern organization, was so efficient and powerful a means of controlling people and, once established, bureaucratization was irreversible. He emphasized the role of accounting as a means of economic calculation and decision making in modern capitalism, which was needed, therefore, to calculate the most efficient way of rationally orienting economic transactions. Stated in Brubaker’s words (1984, p. 11), “social structure of the rational market exchange elicits the subjective disposition to act on the basis of impersonal calculation, money accounting provides an objectified, supra-individual technology for carrying out these calculations, for determining unambiguously the ‘best’, meaning the most profitable, opportunity for exchange”.

However, as mentioned by DiMaggio and Powell (1983, p. 147), the causes of bureaucratization and rationalization have changed. They state that structural change in organizations seems to be driven by processes that make organizations more similar without necessarily being more efficient and competitive. This process of homogenization is called isomorphism. Hawley (1968) defines isomorphism as a constraining process that obliges a unit in the population to resemble other units that face the same set of environmental conditions. Because of isomorphic pressures there is a tendency for organizations within a given domain to become structurally and practically similar. This process that leads to organizational homogeneity, is called institutional isomorphism (DiMaggio and Powell, 1983; Covaleski, et al, 1993; Carpenter and Feroz, 2001; Nicolaou, 1999).
Chapter 3 – Theoretical Propositions

To cope with environmental uncertainty, organizations may undertake isomorphic activity in a rational and deliberate manner (Galaskiewicz and Wasserman, 1989). In this case, they are aware of imitating others in their environment. Furthermore, organizations may also undertake actions that are isomorphic without realizing that they are imitating other environmental players. They may attribute rational objectives to the isomorphic response, when in fact little rational evidence exists to justify organizational actions. The latter process, while seemingly unlikely, is completely in accordance with the concept of institutionalization and the notion that institutional processes and functions are often taken for granted. The concept is a useful tool for understanding the politic of ceremony that encompass modern organizations (DiMaggio and Powell, 1983, p. 150). This relates to organizational competition for political power, social fitness and institutional legitimacy.

DiMaggio and Powell (1983) identify three mechanisms through which institutional isomorphism occur: 1) Coercive isomorphism that stems from political influence and the problem of legitimacy. It is basically the response to “formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function” (p. 150); 2) mimetic isomorphism as a result of standard responses to uncertainty. In this situation, organizations tend to model themselves on other successful organizations; and 3) normative isomorphism that is associated with professionalization. This arises when “professionals operating in organizations are subject to pressures to conform to a set of norms and rules developed by occupational/professional groups” (Abernethy and Chua, 1996, p. 573)
4.1. Coercive Isomorphism

Coercive isomorphism is driven at least by pressure from other organizations on which an organization is dependent and an organization’s pressure to conform to the cultural expectations of the larger society (DiMaggio and Powell, 1983, p. 150). Such cultural expectations that could be an institutional environment reflect the conformity of an organization with public expectations and demands. The pressure could be sensed as force, as persuasion, or as invitations to join in collusion. Included within the category of coercive pressures are those that emanate from government mandate, resource interdependence, state-sponsored legitimacy, and more subtle political processes (Lawrence and Winn, 2001, p. 628).

In some situations, organizational change is a direct response to government mandate (DiMaggio and Powell, 1983; Lawrence and Winn, 2001, p. 628); public demand (Nicolaou, 1999); and resource dependence such as financial dependence (Carpenter and Feroz, 1992; 2001) and knowledge and equipment/technological dependence. Conformity to these pressures is more often ceremonial than actual since the main purpose is to gain and maintain organizational legitimacy (DiMaggio and Powell, 1983). Accordingly, it can be said that conformity with institutionally acceptable structures and practices leads to legitimacy.

Imposition is a mechanism used by regulatory institutions to influence the organizational structures. This refers to the situation when institutional elements that are created as a social response to organizational conflict with the organizational field,
interpret societal standards and impose constraints on the organizational structures and processes (Grewal and Dharwadkar, 2002, p. 86). Even though the organization can either resist or accept them, there is a tendency that it meets such impositions with resistance and institutes superficial/ceremonial changes to protect against the unwanted consequences of noncompliance. Once enacted as laws, the constraints are likely to force organizations to make necessary changes in their structures and processes (DiMaggio and Powell, 1983, p. 150). Accordingly, imposition can be distinguished between imposition by means of authority and imposition by means of coercive power (Scott, 1987, p. 501-502).

Research using institutional theory undertaken by Covaleski and Dirsmith (1988, p. 585) found that a state’s budget, as the end product of the processes of institutionalization was infused with power and self-interest influence. They also explain how powerful groups and individuals use power to enforce compliance with institutional rules when their interests are threatened. In this case, DiMaggio and Powell (1983) identify budgeting as a specific form of coercive isomorphism that is often used by government for funding requirements.

4.2. **Mimetic Isomorphism**

As stated by Palmer et al. (1993, p. 104), institutional theory assumes that at the time an organization is being founded or reorganized, it selects among alternative structures or practices on the basis of efficiency considerations. Subsequently, the organization will adopt forms that are considered legitimate by other organizations in its field, regardless of the structures’ or practices’ actual efficiency. This process has occurred as
a response to environmental uncertainty caused by organizational technologies that are poorly understood (March and Olsen, 1976); goals ambiguity; or environment that creates symbolic uncertainty (DiMaggio and Powell, 1983, p. 151). Therefore, faced with unavailability of a clear course of action, it is sensible that organizational leaders may decide that the best action is to copy a successful peer.

Uncertainty is a powerful force to promote imitation. As modeling is a response to uncertainty (DiMaggio and Powell, 1983), mimetic isomorphism, a notion identified by Scott (1995) as the cognitive pillar of institutionalization, is a process of organizations to copy similar organizations in their field that they perceive to be more successful and legitimate. It can be said that the process is a response to organizational uncertainty in identifying the best course of action (Carpenter and Feroz, 2001, p. 571). “The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency” (DiMaggio and Powell, 1983, p. 152).

Accordingly, “choice-making in institutions is often symbolic in the sense of window-dressing activity” (Mouritsen, 1994, p. 198). To the organization, it is important to reassure external audiences of the existence of rationality. Organizations as institutions need to communicate to their observers that they make legitimate decisions in rational matters as is proved by the use of the process used by successful organizations within the same field. Borrowing Lawrence and Winn’s terminology (2001, p. 628), this behaviour appears to be associated with effectiveness. The phenomenon reflects “symbolic behaviour (whereby) individuals and groups are
frequently hypocritical, reciting sacred myths without believing them and while violating their implication” (Mouritsen, 1994, p. 199).

4.3. Normative Isomorphism

Professionalization can promote procedural legitimacy to set up a working environment, control output, and create a basis for occupational autonomy (DiMaggio and Powell, 1983; Scott, 1987). There are two main sources for the pressure of professionalization: first, formal education and legitimation in a cognitive base produced by university specialists provides legitimacy for intellectual resources in a society; and second, the growth and elaboration of professional networks that span organizations propagate similar and new standards and models (DiMaggio and Powell, 1983, p. 152). Both are important sources of institutional isomorphism. It is collective mobilization of those with cultural licenses and action by those that have “collective authority over what is acceptable theory” (Meyer and Scott, 1992, p. 202) that can only successfully challenge institutional legitimacy. Therefore, they believe that legitimacy is a question of cultural theory.

Bureaucracies that continuously engaged in cultural innovations are more likely to have influence when professional associations support the efforts (Meyer and Scott, 1992, p. 200; Meyer and Rowan, 1977, p. 346-347). Carpenter and Feroz’s study (2001) found that professionalization of the government accounting community has created a constant institutional pressure for governments to adopt and use GAAP. This is consistent with the suggestion by institutional theory that myths constructed by professional associations have robust legitimacy based on the belief that they are
rationally effective (Meyer and Rowan, 1977, p. 347). Thus, normative pressures stem from cultural expectations that actors feel compelled to honour because they are rooted in professional affiliations (Lawrence and Winn, 2001, p. 628).

5. Interests and Institution

An institutional perspective assumes that organizational participants can be constrained by arrangements that limit the choices available, restraining certain patterns of resources allocation and prohibiting certain courses of actions (Powell and DiMaggio, 1983). As viewed by most institutional theorists (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Zucker, 1987), besides institutional agents, institutional constituents such as public opinion and interest groups exercise pressures and expectations on organizational actors. As a result, organizations may engage actions that are less motivated by self-interested behaviour to comply with external norms or practices. The reason is simply because it would be unthinkable to do otherwise (Rowe and Wehrmeyer, 2001).

However, “elite intervention may play a critical role in institutional formation” (Powell, 1991, p. 191) that once established, will be supported and adopted by organizations that benefit from prevailing conventions. Elites could be the architects and products of the institutionalized rules and expectations they create. Although in the institutional literature power is mentioned implicitly, the interaction between the institutional environment and organizations needs to be related to power as a reflection of elites’ self-interests. Organizations may be interest driven, however interests tend to be socially defined from the institutional perspective (Oliver, 1991, p. 149). DiMaggio
(1988, p. 9) supports this argument by saying that “actors’ self-interested behavior tend(s) to be smuggled into institutional arguments rather than theorized explicitly”.

Related to this issue, Scott (1987a) has clearly mentioned that interests tend to be institutionally defined and shaped within the institutional perspective. He clearly mentions that interests are determined and pursued within organizations in the forms “that actors in one type of setting, called firms, pursue profits; that actors in another setting, called agencies, seek larger budget; that actors in a third setting, called political parties, seek votes; and that actors in an even stranger setting, research university, pursue publications” (Scott, 1987a, p. 508). Hence, powerful actors within an institution are always committed to some values or interests in shaping organizational structure.

The nation-state and the professions are the forces for rationalization in the modern era (DiMaggio and Powell, 1983, p. 147). Nevertheless, they are not necessarily sharing the same interests. Professional bodies generally develop decentralized administrative structures that leave maximum discretion in the hands of individual practitioners. By contrast, state officials tend to create centralized bureaucratic arrangements that give discretion to those at the top of the structure and allow relatively little autonomy to local managers. Therefore, state actors are more likely to employ coercion in pursuing their ends and more likely to attempt to create a formal organization network to carry out their purpose. “The professions are expected to rely primarily on normative or mimetic influences and to attempt to create cultural forms consistent with their own aims and beliefs” (Scott, 1987a, p. 509).
Chapter 3 – Theoretical Propositions

Political contests among competing interests will determine the ability of environmental agents to define the reigning forms of institutional structure (Scott, 1987a, p. 509). Institutionalized rules and structures, accordingly, depend on the power of the organizational actors in translating and using societal expectations. Scott (1987a, p. 509) provided the insight by arguing that “outcomes will be influenced not only by differential resources and sanctioning facilities but will also be strongly shaped by the agents’ differential ability to lay successful claim to the normative and cognitive facets of political processes: those identified by such concepts as authority, legitimacy and sovereignty”. As emphasized by Covaleski et al (1993, p. 66), the process of institutionalization is “profoundly political” and reflects power of interests and actors who mobilize them.

In defining organizational fields, DiMaggio and Powell (1983) explicitly explain the role of actors’ self-awareness and self-interests. They hold the view that “fields only exist to the extent that they are institutionally defined. The process of institutional definition, or ‘structuration’, consists of four parts: an increase in the extent of interaction among organizations in the field; the emergence of sharply defined inter-organizational structures of domination and patterns of coalition; an increase in the information load with which organization must contend, and the development of a mutual awareness among participants in a set of organizations that are involved in a common enterprise” (DiMaggio and Powell, 1983, p. 148)
6. Organizational Imprinting

Organizational imprinting is a process by which organizations tend to maintain certain structural features and practices adopted at the time the organization was founded not by rational decision or design but because they are taken for granted as “the way these things are done” (Scott, 1987, p. 505). The form that is taken for granted becomes an important basis for its persistence over time. Carpenter and Feroz (2001, p. 566) illustrate how certain organizational practices within state governmental entities, such as cash basis accounting, that has been accepted as a rational\(^1\) way to account for public monies since the founding of the entities, tend to continue over time, simply because they are socially accepted as the proper way to account for public monies.

Organizational founders often have significant influence on the organization by translating their character and attributes into the institutionalized organizational culture in the forms of organizational goals, commitments and orders (Pettigrew, 1979). It is important, however, that the culture is seen as legitimate within the larger social system. It is because being technically efficient is not the only path to organizational survival. Achieving legitimacy in the eyes of the world, state, powerful professions, or society in general, is another survival strategy (Carruthers, 1995, p. 317). Therefore, it has to be noted that the historical influence does not necessarily refute the role of individuals in forming and changing the organization.

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\(^1\) Within a socio-rational model, Jones (1992) differentiates the concept of rationality into objective, subjective, inter-subjective, and positional rationality. In this case, rationality needs to be understood as inter-subjective rationality created from social perceptions and values and therefore the reality of information is socially constructed.
Chapter 3 – Theoretical Propositions

Zucker (1977, p. 727-728) and Meyer and Rowan (1977, p. 346) support the argument that institutions are socially constructed patterns for action, generated and maintained through ongoing interactions. From this perspective, they seem to realize that actors/founders create institutions through a history of negotiations that lead to generalized expectations and interpretations of behaviour. The patterned relations and actions that come out from this process gradually acquire the moral and ontological status of taken for granted facts that shape future interactions and negotiations (Barley and Tolbert, 1997, p. 94).

7. Effects of Institutionalism on Organization

It has been realized that institutionalization is a cultural and political process that concerns legitimacy and power much more than efficiency (Carruthers, 1995, p. 315). Many studies demonstrated that the technical surface tends to cover the hidden agenda of political and cultural issues (Grandlund, 2002; Carpenter and Dirsmith, 1993; Carpenter and Ferroz, 1992; 2001; Bealing et al, 1996; Brignall and Modell, 2000; Covaleski, et al, 1993; Collier, 2001). This situation creates conflicts between institutional/ceremonial rules as organizational rational choices in demonstrating legitimacy to the public and technical rules/efficiency (Meyer and Rowan, 1977; Meyer, 1992).

Scott (1995, p. 125) asserts that organizations that confront both ceremonial and technical rules often respond to them “by developing specialized units equipped and empowered to deal with each type of demand. Loose coupling between differentiated units is a characteristic feature of all organizations, indeed of all open systems”. Even
though these responses, according to Meyer and Rowan (1977), are more symbolic than real, Scott (1995, p. 129) maintains that their meanings are shaped and exert great social power and also that symbolic structures represents organizational concern to environmental agents.

Institutionalized organizations protect their formal structures from evaluation on the basis of technical performance by minimizing inspection, evaluation, and control of activities and by handling coordination, interdependence, and mutual adjustments among structural units informally (Meyer and Rowan, 1977, p. 357). As an activity to maintain ceremonial conformity, the advantages of decoupling or loose coupling are clear. It enables organizations to legitimate formal structures while the actual activities differ in response to technical and practical considerations (Meyer and Rowan, 1977, p. 357).

Consistent with the notion of decoupling, organizational formal structures that reflect “a kind of symbolic window-dressing” (Carruthers, 1995, p. 315) need to appear rational in front of external constituents (Mouritsen, 1994, p. 198). As a response to external pressures, for example, management control systems used by organizations tend to reflect the symbolic and ceremonial role of appearing efficient and responsive to financial constraints rather than as a technical-rational role consideration (Ansari and Euske, 1987; Covaleski and Dirsmith, 1988; Berry et al, 1985).

The assumption that people are acting in good faith keeps the activities of decoupled organizations in orderly fashion (Meyer and Rowan, 1977, p. 357-358). This logic of confidence is directed to maintain plausibility and legitimacy of the
organization itself in order to avoid “embarrassing incidents and preserves the organization from the disruption of an implausible performance by an actor” (Meyer and Rowan, 1992, p. 90). The most visible aspect of the logic of confidence in the educational system, for instance, according to Meyer and Rowan (1992, p. 91) is the myth of teacher professionalism even without necessarily having professional training for teaching. This has happened because the environments of all organizations that have maintained high level of confidence and good faith have highly institutionalized rituals of inspection and evaluation (Meyer and Rowan, 1977, p. 358). Thereby, inspection and evaluation that tend to delegitimate organizations is ceremonial.

The following diagram (figure 3.1) shows the effects of institutional isomorphism on organizations.

**Figure 3.1: Effects of Institutional Isomorphism on Organizations**

![Diagram showing the effects of institutional isomorphism](image)

(Source: Meyer and Rowan, 1977, p. 360)
8. Managerial Responses to Institutional Processes

Early institutional theorists assumed that, confronted with external institutional demands, organizations have no option but to comply (see, for example: Berger and Luckmann, 1967; Selznick, 1957). However, recent institutional theorists challenge this idea (Oliver, 1991; Scott, 1995; Beckert, 1999). Focusing attention on the variety of individual organizations’ responses, Oliver (1991) combines institutional and resource dependence perspectives to accommodate interest-seeking and active organizational behavior arguing that organizational responses to institutional pressures are not assumed to be invariably passive and conforming across all institutional conditions. Both perspectives have similar assumptions that organizational choice is possible within the context of external constraints, and that organizations always attempt to obtain stability and legitimacy (Oliver, 1991, p. 146-150; see also, Carpenter and Feroz, 2001).

Within organizations, management may respond to institutional pressures differently. Accordingly, Oliver (1991) develops a conceptual framework to examine and evaluate organizational responses to pressure toward conformity with institutional processes. The pattern in which the institution is diffused is distinguished between coercive pressure and voluntary diffusion stemming from mimetic or normative isomorphism (DiMaggio and Powell, 1983). In this case, she proposes five strategic responses, which vary in active agency by organizations from passivity to increasing active resistance: acquiescence, compromise, avoidance, defiance, and manipulation as seen in figure 3.2.
Figure 3.2: Managerial Responses to Institutional Processes

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Tactics</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiescence</td>
<td>Habit</td>
<td>Following invisible, taken for granted norms</td>
</tr>
<tr>
<td>Imitate</td>
<td>Mimicking institutional models</td>
<td></td>
</tr>
<tr>
<td>Comply</td>
<td>Obeying rules and accepting norms</td>
<td></td>
</tr>
<tr>
<td>Compromise</td>
<td>Balance</td>
<td>Balancing the expectations of multiple constituents</td>
</tr>
<tr>
<td>Pacify</td>
<td>Placating and accommodating institutional elements</td>
<td></td>
</tr>
<tr>
<td>Bargain</td>
<td>Negotiating with institutional stakeholders</td>
<td></td>
</tr>
<tr>
<td>Avoid</td>
<td>Conceal</td>
<td>Disguising nonconformity</td>
</tr>
<tr>
<td>Buffer</td>
<td>Loosening institutional attachments</td>
<td></td>
</tr>
<tr>
<td>Escape</td>
<td>Changing goals, activities or domains</td>
<td></td>
</tr>
<tr>
<td>Defy</td>
<td>Dismiss</td>
<td>Ignoring explicit norms and values</td>
</tr>
<tr>
<td>Challenge</td>
<td>Contesting rules and requirements</td>
<td></td>
</tr>
<tr>
<td>Attack</td>
<td>Assaulting the sources of institutional pressure</td>
<td></td>
</tr>
<tr>
<td>Manipulate</td>
<td>Co-opt</td>
<td>Importing influential constituents</td>
</tr>
<tr>
<td>Influence</td>
<td>Shaping values and criteria</td>
<td></td>
</tr>
<tr>
<td>Control</td>
<td>Dominating institutional constituents and processes</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Oliver, 1991, p. 152)

8.1. Acquiescence

Acquiescence as a passive response to institutional pressures may take many forms; these include habit, imitation and compliance. Habit refers to “unconscious or blind adherence to preconscious or taken-for-granted rules or values” (Oliver, 1991, p. 152). Organizations tend to reproduce actions and practices of institutional norms that have attained the persistent status of a social fact. When actions and practices have become historically repeated, taken-for-granted, and conventional, they achieve social status as institutional norms. Scott (1987) illustrates that organizations reproduce widely accepted institutional roles such as students and teachers, line managers and staffs, professional and clerical functions on the basis of conventional definitions of these activities.
Chapter 3 – Theoretical Propositions

Imitation refers to modeling in response to uncertainty. Copying the successful organizations is the common form of imitation (DiMaggio and Powell, 1983). A study by Galaskiewicz and Wasserman (1989) of mimetic processes found that faced with uncertainty, decision makers tend to imitate the managerial conduct of other actors in their environment, particularly those actors whom they knew and trusted.

By comparison, compliance that can be defined as conscious obedience to institutional values and norms is considered more active than habit or imitation. In this case, organizations intentionally and deliberately decide to comply with institutional pressures in expectation of specially selected benefits that may range from social support to resources or predictability (Oliver, 1991, p. 153). An organization may comply with external pressures in seeking the approval of external constituents or society that can provide legitimacy and stability necessary to conduct its activities in acceptable manners (Meyer and Rowan, 1992; Bealing, et al, 1996).

8.2. Compromise

In between the two extremes of acquiescence and manipulation, there are strategies of compromise, avoidance and defiance. Conflicting institutional demands between institutional expectations and organizational objectives in relation to efficiency or autonomy may force the organization to compromise by balancing, pacifying, or bargaining with external constituents. The central role of balance is to maintain diffusion and stabilization of structural innovation. This is an attempt by an organization to achieve parity among or between multiple stakeholders and internal interests. “Particularly when external expectations conflict (e.g., shareholder demands
for increased efficiency versus public pressures for the allocation of corporate resources to a social cause) with organization’s interests may be served most effectively by obtaining an acceptable compromise on competing objectives and expectations” (Oliver, 1991, p. 153). Thus, balancing tactics is basically directed to accommodate multiple constituent demands in response to institutional expectations and pressures.

As a partial conformity with the expectations of multiple constituents, organizations that adopt pacifying tactics tend to conform to the minimum level of external constituents’ demands. The organizations may build up a minor level of resistance to institutional pressures. However, they will dedicate most of the energies to pacify the institutional sources they have resisted. For example, an organization that is under pressure to discontinue the production of a potentially harmful product may still produce the product by allocating considerable amount of resources to redesign the product to fit institutional expectations (Oliver, 1991, p. 154).

Bargaining relates to efforts by an organization to obtain concessions from external constituent in its demands. Resource dependence theory elaborates a negotiated environment of organizations by assuming that the relation of organizations with their environment is open to negotiation and exchange of concessions (Oliver, 1991, p. 154). Many examples can depict the bargaining tactics used by an organization in response to institutional pressures. Professional organizations may bargain with the government agencies in determining certain standards of acceptable service and accountability, or business organizations may bargain with environmental groups and consumer associations to achieve an acceptable environmentally friendly production processes and outputs.
8.3. Avoidance

Avoidance is a strategy used by organizations to preclude the necessity of conformity by concealing their nonconformity, buffering themselves from institutional pressures, or escaping from institutional rules and expectations (Oliver, 1991, p. 154). Concealment is used by an organization to disguise nonconformity behind a frontage of acquiescence. The organization tends to engage in ritualism and ceremonial pretense that symbolically adopts institutional norms and requirements to disguise the fact that it does not intend to implement them (Meyer and Rowan, 1977, p. 341). Therefore, the conformity is more in appearance not in reality, a situation that often is presumed to be sufficient for the attainment of legitimacy (Oliver, 1991, p. 155).

Buffering tactics refer to attempts by an organization to reduce external inspection, scrutiny and evaluation by partially detaching or decoupling its technical activities from external contact (Oliver, 1991, p. 155). As extensively documented responses to institutional processes, these can be categorized as de-coupling of structural arrangements in order to deal with inconsistent constituent interests (Meyer and Rowan, 1977; Berry, et al, 1985; Ansari and Euske, 1987; Modell, 2001).

Meyer and Rowan (1977) point out that de-coupling is a process of disintegrating the different parts of the organizational structural elements in response to institutional pressure to comply with inconsistent norms. The process of de-coupling may include the following properties: 1) “Activities are performed beyond the purview of managers; 2) Goals are made ambiguous or vacuous, and categorical ends are
substituted for technical ends; 3) Integration is avoided, program implementation is neglected, and inspection and evaluation are ceremonialized; 4) Human relations are made very important…... The ability to coordinate things in violation of the rules-that is, to get along with other people-is highly valued” (Meyer and Rowan, 1977, p. 357).

Escape is a more dramatic avoidance response to institutional pressures. In this case, organizations significantly exit or change their own domain within which pressure is exerted to avoid the necessity of conformity altogether (Oliver, 1991, p. 155). The relocation of heavily polluted industries from the industrialized countries to the third world countries is an example of how the industry avoids the requirements and rules to comply with pollution emission standards.

8.4. Defiance

This is a more active form of resistance to institutional pressures that can be conducted in the forms of dismissal, challenge and attack. Dismissing of institutional rules and values can only be exercised when the potential of enforcement is perceived to be low or when internal objectives diverge or conflict very dramatically with institutional rules and values (Oliver, 1991, p. 156).

Challenge tends to be more active departure from institutional pressures than dismissal. This is an offensive defiance of these pressures by organizations and accordingly makes a virtue of their insurrection. Meyer and Rowan (1992) show that schools tend to adopt institutional pressures for a common understanding of educational requirements via the process of accreditation. However, as mentioned by Oliver (1991,
p. 156), “institutional theory is unable to explain the continuing reappearance of alternative schools that attempt to make a virtue of their active departure from institutional beliefs and commonly held definitions of what constitutes effective education”.

Attack, on the other hand, can be distinguished from challenge by its intensity and aggressiveness of organizational active departure from institutional pressures. The tactic is most likely to take place when institutional values and expectations are organization-specific that are particularly negative and discrediting and accordingly the organization believes that its rights, privileges, or autonomy are in serious jeopardy (Oliver, 1991, p. 157).

In conclusion, a defiant strategy that represents unequivocal rejection of institutional norms and expectations is likely to occur due to many reasons (Oliver, 1991, p. 157). The first reason is that the organization perceives that the cost of active departure is low. Second, the organization thinks that there is dramatic divergence between internal interests and external interests. Third, the organization believes that it can demonstrate the rationality of its own alternative conduct. And the last reason is that by displaying such strategies that antagonize the constituents’ judgment, the organization has little to lose.

8.5. Manipulation

The opposite extreme of acquiescence is manipulation of institutional environments by co-opting influential constituents, influencing values and criteria, and controlling
institutional constituents and processes. Manipulation is the most active response to institutional pressures in the form that “it is intended to actively change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them” (Oliver, 1991, p. 157). The tactics that can be used range from co-option by persuading institutional constituents to join the organization; by influencing institutionalized values and beliefs or definitions and criteria of acceptable practices; and by controlling external constituents that are applying pressure on the organization.

An organization may choose to co-opt the source of pressure to neutralize institutional opposition and enhance legitimacy (Oliver, 1991, p. 157). By persuading an institutional constituent to join the organization, political support and legitimacy could be obtained. Coalition building processes and institutional ties to demonstrate that the organization is worthy and acceptable to other external constituents that hold resources and approval can be categorized as co-option tactic as well (Oliver, 1991, p. 157).

Trade associations often influence public perceptions of their industry and lobby government regulators for changes in the institutional rules to which its members are required to conform (Oliver, 1991, p. 158). In this situation, since the rules are institutionally defined, the actual definition of acceptable rules is open to reinterpretation and manipulation. For example, major organizational transformations in Finnish corporations to cope with radical market changes to join EU are socially legitimate and acceptable by its institutional environments by appealing to financial distress (Grandlund (2002) and internationalization (Grandlund, et al, 1998) that may be needed for triggering genuine changes.
Control, by comparison, is designed to create domination over the external constituents that are applying pressure on the organization, thereby, it is a more active response to institutional pressures than co-option and influence because the objective is to dominate rather than to influence or neutralize institutional sources and processes (Oliver, 1991, p. 158). An institutional perspective has noted that institutional processes often involve the struggle for power and control (Covaleski and Dirsmith, 1988).

9. Problems of Institutional Theory

Despite its growing use in organizational and accounting studies, institutional theory is not without problems. This section is directed to identify the problems that are faced by institutional theory. At least, two inter-related concerns of the problems of institutional theory can be identified. First, institutional theory neglects issues of power and interest in the form of the rejection of rational choice models of human action (Abernethy and Chua, 1996; Covaleski, et al, 1993). Second, the assumption that practices intended to obtain external legitimacy are only symbolic and always de-coupled from internal operating system has been seriously questioned (Carruthers, 1995; Mouritsen, 1994).

9.1. Power, Interests and Process of Institutionalization

Institutional theorists have a strong theoretical basis for the analysis of situations in which taken-for-granted rules and norms overpower interests, and uncertainty prevents actors from identifying rational strategic decisions (DiMaggio, 1988). Institutional theory tends to underestimate the significant role of power and interests in institutionalization. However, attempts to more closely open research paths for
organizational heterogeneity and change have gained attention to solve the problem (DiMaggio, 1988; DiMaggio and Powell, 1991; Oliver, 1991; Powell, 1991; Scott, 1995). While these propositions exposed interesting new insights, the relationship between power/actors, interests and institutions needs further clarification and genuine integration (Beckert, 1999, p. 778) so that these can be explicitly theorized (see: Oliver, 1991; Lawrence et al, 2001).

With an excessive focus on myth and ceremony or taken for granted cultural meanings institutional theory has relatively neglected the issues of power and control (Carruthers, 1995, p. 325), power and interests (Covaleski, et al, 1993). By emphasizing institutionalization as an outcome rather than a process, institutional theory places organizational structures and practices beyond the reach of power and interests (DiMaggio, 1988, p. 13). Hence, expectations of acceptable practice merely exist and are taken for granted (Covaleski, et al, 1996, p. 11). Apparently, there is paradox rooted in the two senses in which the term institutionalization is used, that in contrast to the institutionalization as an outcome, institutionalization as a process is profoundly political and reflects the relative power of the organized interests (DiMaggio, 1988, p. 13; DiMaggio and Powell, 1991).

This is the reason that actors are not necessarily constrained to passively comply with institutional pressures, but may possess wider action repertoires involving a greater element of proactive choice (DiMaggio, 1988; Powell, 1991; Scott, 1995). This insight has been spreading among management accounting researchers (see, e.g. Abernethy and Chua, 1996; Covaleski, et al, 1996). Within this perspective, managerial accounting practices and information are seen as socially constructed phenomena with
the implications of the power and interests of social construction rather than as a technically rational function driven by and serving the internal operations of organizations. Consequently, once such practices and information are implemented, “what it accounts for shapes organizational members’ views of what is important and, more radically, what constitutes reality. Managerial accounting, then, is seen as being implicated in the social construction of reality rather than as being passively reflective of the reality” (Covaleski, et al, 1996, p. 11).

The issues of power and interests, therefore, are closely related to the issue of institutionalization: objects are first recognized, then accepted by relatively few actors, and finally widely diffused and broadly accepted within a field (Meyer and Rowan, 1977; Zucker, 1987; Lawrence et al, 2001). The pattern of diffusion involves two sets of mechanisms; the early adopters tend to base their adopter on technical/efficiency reasons and later adopters responding primarily to legitimacy/taken for granted pressures (Lawrence et al, 2001, p. 626 as quoting from Zucker, 1987).

This process characterizes temporal boundaries of institutionalization that can be depicted as the S-shaped curve in figure 3.3. The curve involves a period of time wherein an innovation emerges and then a period wherein the innovation remains diffused throughout the field in a relatively fixed sequence. Lawrence et al (2001, p. 627) call this temporal pattern “an instance of institutionalization” when new practices, rules or technologies emerged, became institutionalized, and remained institutionalized within an organizational field (Hoffman, 1999).
In addition, Lawrence et al (2001, p. 627) argue that the S-shape curve represents a heterogeneous set of processes in the forms that the emphasis of stability and intractability of organizational fields as mentioned by Meyer and Rowan (1977) and DiMaggio and Powell (1983) is not always the case; and once institutionalization has reached the state of legitimation, the issue is the stability, endurance and influence of the institution. Therefore, Lawrence et al (2001) develop four types of mechanisms— influence, force, discipline, and domination and argue that each type will produce a distinctive pattern of pace and stability. Consequently, the combined used of multiple mechanisms will produce more complex patterns of pace and stability. This all happened because the role of actors’ power and the role of disciplinary systems that work to control organizational members (Townley, 1993).
Powell (1991, p. 191) suggests that “elite intervention may play a critical role in institutional formation”. Therefore, studies of the origin and transformation of institutions cannot ignore the dynamics of power relationships as a factor that determines institutional development. Even Stinchcombe (1968, p. 107) mentions that powerful actors/people that are committed to some values or interests structurally determine an institution. This is supported by the attitude of the power holder that tends to preserve the power through the controlling of successors’ selection and general instruments communication and socialization (Scott, 1995, p. 20).

The focus of institutional theory on an explanation of the similarity and stability of organizational arrangements in organizational field has erroneously defocused the theory from internal dynamics of organizational change and self-interested action (DiMaggio, 1988, p. 3-5; Greenwood and Hinings, 1996, p. 1023). The theory tends to overlook the role of power and interests of active agency and resistance in organization-environment relations (Oliver, 1991; Covaleski and Dirsmith, 1988; DiMaggio, 1988). Consequently, it is difficult to explain the different responses among organizations experiencing the same institutional pressures. It is because the differences in organizational responses can only be understood by conceptualizing organizations as heterogeneous entities composed of functionally differentiated groups/actors pursuing goals and promoting interests (Greenwood and Hinings, 1996, p. 1023).

Many studies have been done to conceptualize these issues into an institutional framework (see, e.g., Broadbent, et al, 2001; Lawrence and Jennings, 2001; Burns and Scapens, 2000; Beckert, 1999; Barley and Tolbert, 1997; Greenwood and Hinings, 1996; Covaleski et al, 1993; Fogarty, 1992; Oliver, 1991). For example, Beckert (1999,
p. 791-792) argues that the stability of institutionalized practices does not depend just on cognitive rigidity and legitimacy, but also on non-institutional forces within the organization and its social environment, in which power is the most important force. To Beckert (1999, p. 792), power is ambivalent. It is power that functions as an important stabilizing factor in institutional processes of change to protect organizational legitimacy. On the contrary, it is also power that can be used by entrepreneurs, for example, to destroy existing institutions and substitute new arrangements to enhance their interests that could be one of them is efficiency. Thus, institutional theory has to take efficiency, legitimation and power into account.

The incorporating of power and interests into the framework of institutional theory as suggested by Barley and Tolbert (1997) is reflected in the degree of institutionalization and incomplete processes that leave room for changes following the interactions between structure and agency. In management accounting, Burns and Scapens (2000) investigate relationships between the socially constructed institutional realm (structure) and the realm of action (agency). In this case, changes are seen as a process with no predetermined outcomes (Hopwood, 1987) or a process with no outcome at all (Burns, 2000).

However, many fundamental questions are still unanswered. Quattrone and Hopper identify the questions as followed:

Who can ‘see’ institutions, actions and processes? Who can judge when processes making an institution a taken for granted and socially constructed reality are complete? If they are not, then what is an institution? How can one affirm that institutions are socially constructed and taken for granted entities and then argue that change is an ongoing process with no outcomes? Is the concept of institution a useful heuristic for explaining change as a process and are categories such as ‘environment’, ‘context’, ‘institution’, presumed to be either inputs or
outputs of theories of change, valid if change is not a passage from a given entity to another but is a process? Lastly, and above all, what of the concept of change in itself? Who can state, be they an academic or a manager, whether an institution has changed? How can an institution become something different (something new) from what it was before without being charged with reifying the concept of an institution as a thing? (2001, p. 406)

9.2. The Problematic Concept of Decoupling

“Modern Western society privileges a particular form of rationality, and so organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality” (Carruthers, 1995, p. 315). Taking this view into account, institutional theory has placed a strong emphasis on symbols in order for an organization to attain legitimacy. Organizational structures become symbolic displays of appropriate conformity to institutionalized rules (Scott, 1987, p. 507). “The way organizations are organized and operate, to the extent they are visible to the public, are purposely designed to accommodate social expectations” (Fogarty, 1992, p. 333).

However, from a technical point of view, what organizations actually do is unclearly connected to what their structures suggest they do. That means the accomplishment of complex and probably indeterminable work of organizations requires decoupled internal operating processes (Meyer and Rowan, 1977, p. 340-341). Decoupling is significant due to a substantial discrepancy between formal structure and organizational practice in the forms of attribution rationalized procedures and rules to cultural rather than technical processes.
The relationship and the difference between technical and institutional factors are complex and sometimes, the two are hard to distinguish (Scott and Meyer, 1991, p. 123-124) whereas the real world keeps confusing the two (Carruthers, 1995, p. 318). Scott and Meyer view the relationship as mutually exclusive states. They consider that at the same time, societal sectors could be more or less technical and more or less institutional. Banks, airline companies, and public utilities are examples of organizations that are subject simultaneously to have developed both kinds of pressures since the organizations face efficiency/effectiveness demand as well as pressures to conform to procedural requirements. In response, the organizations tend to establish relatively elaborate administrative apparatus.

In this context, decoupling plays an important role by allowing an organization to maintain its formal structure without having to compromise its actual operations. However, it is unlikely that critical audiences give legitimacy to an organization that visibly violates its own formal structures so that it has to be managed carefully (Carruthers 1995, p. 319).

Orton and Weick (1990, p. 206-207)\(^2\) identify three factors as possible causes of decoupling/loose coupling. The first factor is causal indeterminacy that refers to “unclear means-ends connections, which are explored in writings on bounded rationality, selective perception, uncertainty, ambiguity, and intangibility of production materials” (p. 206). The second factor, that is called fragmented external environment can typically take the form of dispersed stimuli or mismatched expectations as

\(^{2}\) Diverse understanding in applying the concept of organizations as loosely coupled systems has inspired Orton and Weick (1990) to develop a loose coupling theory that focus separately on causation, typology, effects, compensations, and outcomes.
illustrated by many researchers who have argued that organizations must somehow reconcile incompatibilities between institutional pressures and technical pressures (see, for example: Meyer and Rowan, 1977; Covaleski and Dirsmith, 1983; Collier, 2001). Lastly, fragmentation of an internal environment such as “few participants are constantly involved or care about every dimension of the organization’s operations” (Pfeffer, 1978 as quoted by Orton and Weick, 1990, p. 207) can lead to loose coupling or decoupling.

Accounting practices are often viewed as a legitimating instrument for organizations through the construction of an appearance of rationality and efficiency (Covaleski et al, 1996, p. 8-9; Carruthers, 1995, p. 319). Budgeting, for example, is possibly considered as a symbolic performance rather than a decision making processes (Anshari and Euske, 1987); a means of communication rather than a means of control; and an expression of values rather than an instrument for action (Czarniawska-Joerges and Jacobsson, 1989, p. 29). If accounting is used to justify decisions and to make them look good rather than to make them rational, the rationalized accounting is decoupled from actual organizational decision-making. However, accounting manipulations must be done behind the scenes in order to be effective. The organization will confront difficulty in maintaining appearances if the decoupling becomes too transparent (Carruthers, 1995, p. 319).

Borrowing Mouritsen’s idea (1994, p. 205), as an institution, accounting is a cultural object that transmits criteria of appropriateness across different organizational and social contexts in the form of the financial criteria of rationality. Since appropriateness is socially constructed, rationality is determined by social interaction so
that accounting is not merely systematic empty window-dressing. In order to be effective, accounting presupposes the existence of institutional patterns relevant to its operation that are reinforced through accounting systems used as facilitating media. Accordingly, accounting systems bind social contexts since they carry notions of formal rationality, productivity and profit-maximization across particular organization contexts. The accounting figure, taking into account Weber’s formal rationality, represents managerial performance in “rationalized society” (Mouritsen, 1994, p. 205).

10. Incorporating Power and Theory of Closure

Power has been viewed as functional in the hands of managers who use it in the pursuit of organizational goals, and dysfunctional in the hands of those who challenge the goals and seek to promote self-interest. It has been viewed as the means by which legitimacy is created and as the incarnation of illegitimate actions. Power has been equated with formal organizational arrangements and as the informal actions that influence outcomes. It has been seen as conditional on conflict and as a means to prevent conflict. It has been defined as a resource that is consciously and deliberately mobilized in the pursuit of self-interest, and as a system of relations that knows no interest, but from which some groups unconsciously and inadvertently benefit. It has been seen as an intentional act to which causality can be clearly attributed an as unintentional, unpredictable game of chance. The study of power has created a behavioral focus for some researchers and attitudinal and ideological factors for others. Power has been berated for being repressive and lauded for being productive. (Hardy, 1995, p. xx - xxi).

The quotation shows the confusion that exists concerning the definition of power. Power and politics cannot be separated. If power is to produce intended effects in line with perceived interests, “politics is the practical domain of power in action” (Burns, 2000, p. 569). Power is a force through which events can be affected, whereas politics involves those activities or behaviours through which power is developed and used in organizational settings (Pfeffer, 1981, p. 7).
Hardy (1996) develops a framework of power mobilization consisting of power over resources, power over processes and power over meaning that relates to process of institutionalization. Power over resources concerns the modification of the behaviour of others to influence specific actions by deploying or restricting key resources such as information, ability to hire and fire, rewards, punishments, funding, authority, expertise. It involves continual use of ‘carrot and stick’ persuasion/coercion.

Power over decision-making is creating new awareness by “opening up processes to new participants, issues and agendas” (Hardy, 1996, p. 7). The new awareness is directed to sustain the new behaviour within the existing institutional values and norms.

Power over meaning is directed to influence actor’s perception, cognitions, and preferences to accept symbols, rituals/existing institutional structures and practices or to convince that institutional change is legitimate, desirable, rational or inevitable (Hardy, 1996, p. 7). This idea is consistent with Pettigrew (1977, p. 85) who states that “politics concerns the creation of legitimacy for certain ideas, values and demands-not just action performed as a result of previously acquired legitimacy. The management of meaning refers to a process of symbol construction and value use designed both to create legitimacy for one’s own demands and to ‘de-legitimize’ the demands of others”.

Power has become an important factor in Weber’s closure theory of conflicting classes, status groups and parties. Classes, according to Weber (1978, p. 927) represent “possible, and frequent, bases of communal action”. A ‘class’ is when a number of
people that have in common a specific causal component of their life chances are exclusively determined by economic interests in the possession of goods and income opportunities under the conditions of the commodity or labor market.

In contrast to classes, “a status signifier and a common identity or communal spirit” (Chua and Poullaos, 1998, p. 158) determines the existence of status groups. Weber’s (1978, p. 932) characterized status groups are not purely economically determined, but they are also closely associated with the “status situation” that is determined by “a specific, positive or negative, social estimation of honor”. They may be differentiated by religion, language, ethnicity, and gender. A study by Hammond and Streeter (1994) provides evidence of the long history of African Americans as a group that was excluded from the practice of accountancy by the dominant groups of White Americans through CPA certification processes that had been dominated by institutionalized racism. When, the status groups seek support from the government agencies for political action, they become parties or power groups (Chua and Poullaos, 1998, p. 158-159).

11. Research Framework

In spite of the lack of research evidence in Indonesia during the New Order era about the role of accounting, Indonesian organizations continue to adopt accounting as being modern. As mentioned in chapter one, Indonesia under the New Order government had adopted western-style democratic governmental structures and the U.S. accounting framework to be judged as a modern state. However, at the same time, the government promoted values, interests and practices that contradicted the framework adopted, and
both tend to blend. Therefore, practically, institutional processes are routinely disguised as technical ones so that the government can maintain their institutionally prescribed appearances via formal structures without having to compromise actual practices (Carruthers, 1995, p. 318). The purpose was to maintain its appearance globally (especially in front of Inter-Governmental Group on Indonesia and Consultative Group on Indonesia, a donor group that comprised Japan and western donor countries) that the Indonesian government was democratic and managerially responsible.

This process of institutionalization was taking place at the macro-level/environmental level and at the individual organizational level in Indonesia. At the individual organizational level, institutionalization is reflected in the forms of structures, processes and roles adopted from the macro-level and that become routinized, formalized and embedded in the organization and self-maintaining over long periods of time without further justification and elaboration (Zucker, 1987). Throughout the New Order government period, accounting as a formal structure had been used and utilized as a “symbolic window-dressing” (Mouritsen, 1994, p. 203) and “rationalized myth” (Meyer and Rowan 1977). Widely practiced within the government bureaucracies and intensified by the bureaucratic-authoritarian regime of the government, the process of institutionalization of the structure had been widely accepted by the organizations and Indonesian society. Decoupling/loosely coupling, therefore, becomes a significant issue and justified because formal structures, including accounting system, are not necessarily adopted for efficiency but primarily for legitimacy.
Chapter 3 – Theoretical Propositions

The head of the PBS Jakarta had managerially and financially dominated the school, a higher degree granting educational institution run by the Indonesian National Private Banking Association. The head imitated the way the New Order government managed the state. The modeling could be explained from two points of view. First, the New Order government’s cultures, values and practices had achieved institutional status and become powerful myths, thereby the school needed to conform to obtain legitimacy. Within this view, externally initiated managerial and accounting practices are used to improve perceived organizational legitimacy. The use accordingly is symbolic. Second, as a process, the institutionalization of the myths into the school was overwhelmingly political and reflected the interests and relative power of the school’s head over the school’s other stakeholders.

The process of institutionalization at the organizational level (PBS Jakarta) can be associated with what Hardy (1996) called the mobilization of power over resources, decision-making and meanings. The school head intentionally exercised the school’s resources to modify staff behaviour by using “carrot and stick” approaches and concentrating decision making processes in his hands. Exploiting language of the school development, he influenced staff perception, cognitions and preferences to accept his power – to legitimize and “rationalize” his domination.

Concepts of class, status groups and party of Weber are used to enrich the analysis of the political struggle to exclude certain groups of ethnic and religion from the school and the motives of the institutionalization process. The school head, by design, appointed staff members from his religious group to dominate managerial positions in order to maintain and strengthen his position.
Adapted and developed from Roggerkamp and White (2001, p. 1062), the following figure 3.4 shows the research framework that will be used to analyze the institutionalization of the New Order cultural and political values into PBS Jakarta.

Figure 3.4: Theoretical Research Framework

The New Order cultural and political values dominated Indonesian society

Institutional Isomorphism

Coercive  Mimetic  Normative

Accounting as a rationalized myth

Adoption of accounting as a tool for organizational control system

Efficiency and effectiveness

Legitimacy, organizational and head of PBS Jakarta domination and survival

Exercising status groups via ethnicity and religion

Mobilization of power over resources, decision making and meaning
12. Concluding Remarks

The framework that is developed in this chapter provides guidance for analyzing organizational control system in the PBS Jakarta during the New Order period of 1987 to 1999. It is not, however, intended to hypothesize the research process rather that when the researcher enters into the process of interpretation – hermeneutic circle – he involves his understandings, experiences and even biases and expectations in the process (Moules, 2002). Thus, the process is not merely letting the case speak for itself. The theoretical framework reflects the researcher’s understanding and biases regarding the research process as result of his experiences in interacting with the subject being studied. It is within this context that the framework is developed given the researcher’s involvement for more than a decade in the subject being studied.
Chapter Four

Methodological Issues

1. Introduction

Due to the complexity of social facts, it is argued that social science does not always need to adopt the methodology used by natural science, namely, hypothetico-deductive methodology. These social facts, according to Cohen (1953) are connected to their less repeatable characters, their less direct observability, their greater variability and lesser uniformity, and their greater difficulty of isolating one factor at a time. These phases are so dependent on one another that we shall not treat them separately. In accordance with this view, this study takes a stance in the belief that accounting is social science. A study of accounting, accordingly, needs to be conducted in its organizational and societal contexts (Hopwood, 1978; Laughlin, 1995; Tomkins and Groves, 1983).

2. Philosophical Foundation

It has been arguing that the hypothetico-deductive research approach in accounting that relies on statistical analysis and hypothesis testing barely capture the social phenomena intended to be studied (see, Tomkins and Groves, 1983; Chua, 1986). Emphasizing the inappropriateness of the approach to be used in accounting research, Tomkins and Groves clearly mention (1983, p. 366) that the approach:

…is only appropriate where one can adequately deduce reality by the use of independent and dependent variables and the statistical relationship between them. Deductive logic, however, rests on the assumption that the meanings attached to variables are independent of the situation in which they are used – that they may be interpreted “literally” and are not indexical expressions. Such literal interpretations of variables can (usually) be taken for granted in the natural sciences where problems of methodology are reduced more to ones of
method concerned with the design of competent and practical techniques, but the same stance cannot be assumed in researching social action.

A qualitative inquiry characterizes the involvement of an interpretive, naturalistic approach to its subject matter. Within this perspective, a researcher studies “things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them” (Denzin and Lincoln, 1998, p. 3). Interaction between the researchers and that being researched becomes an important issue due to the demand for the researcher to become an “insider” where he or she collaborates, spends time in the field with participants in order to lessen distance between them (Creswell, 1998, p. 75). In other words the researcher has to get involved (Oldman, 1981, p. 237).

Interpretivism, or more recently called constructivism (Schwandt, 1998; Guba and Lincoln, 1998) that relies on the ontology of relativism, transactional and subjective epistemology, and hermeneutical and dialectical methodology (Guba and Lincoln, 1998), accordingly, is suitable to this study. Within this perspective, meaning is socially constructed through people. The focus of research is to generate verstehen (understanding) (Schwandt, 1998, p. 225) based on “subjective” interpretations of researchers and researched in experiencing and interpreting their realities. In general,

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1 Guba and Lincoln (1985) originally discussed this approach under the heading of ‘naturalistic inquiry’. This approach has been widely adopted within interpretive accounting studies in many different names (see, for example: Ansari and Euske, 1987; Covaleski and Dirsmith, 1988; Ezzamel and Bourn, 1990; Broadbent, et al, 2001; Collier, 2001)

2 Rooted in the work of Wilhelm Dilthey, verstehen entails a kind of empathic identification with the actor (Schwandt, 2000, p. 192). For that reason, Gaffikin (1989, p. 171) asserts verstehen as understanding through empathy, intuition or imagination. For Weber, however, the idea of verstehen does not simply involve intuition, sympathetic participation, or empathy but also systematic and rigorous research so that it is applied to “the subjective states of individual actors or to the subjective aspects of large-scale units of analysis” (Ritzer, 1983, p. 126). Accordingly, action can fully be understood by identifying the actor’s intention and the context in which the action belongs and makes sense.
Chapter 4 – Methodological Issues

an interpreter is viewed as “one who is engaged in a critical analysis or explanation of text and/or human action by using a method that is called hermeneutic circles (Schwandt, 2000, p. 194).

Guba and Lincoln explain that the ontology of relativism sees reality as a form of multiple, intangible mental constructions, socially and experientially based, local and specific in nature that is dependent on the individual persons or groups who hold the construction (1998, p. 206). Construction, in here, is nothing to do with the truth in any absolute sense, “but simply more or less informed and/or sophisticated” (Guba and Lincoln, 1998, p. 206). Implicitly, the reality is time and context dependent since people who are involved in the research process socially construct the reality.

Epistemologically, there is an assumption that the researcher and the object being researched are interactively linked so that knowledge is created from interaction between researcher as investigator and subjects being researched as respondents (Guba and Lincoln, 1998, p. 206-208). Within such epistemology, personal values necessarily influence any investigation so that the relationship between the two is inherently subjective (Toma, 2000, p. 178) in which researchers’ own values and biases cannot be separated from the inquiry (Schwandt, 1994). Knowledge is being constructed “in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context” (Crotty, 1998, p. 42).

It follows directly from the ontology of relativism and epistemology of subjectivism that interpretivism relies on hermeneutic/dialectic methodology (Guba and Lincoln, 1998) in the process of verstehen (understanding) of human/social sciences by
which inter-subjective meanings are “created, negotiated, sustained, and modified within a specific context of human action” (Schwandt, 1998, p. 225). Researchers are no longer the ultimate authority in research inquiry since, it has to be negotiated between both researchers and researched.

Hermeneutics, as a major analytical modes/methodology within interpretivism, is primarily concerned with the meaning of a text or text-analogue. Hermeneutics, accordingly, is interpretation (Polkinghorne, 1983, p. 218; Park, 2001, p. 83; Rowan and Reason, 1981, p. 132), that is achieved through linguistic analysis on the reason that language and tradition in fact are bound together – “language is the ‘mode of being tradition’, and tradition is the medium in which language continues and develops” (Gaffikin, 1989, p. 171). Related to this issue, Taylor (1976, p. 153) says that:

Interpretation in the sense relevant to hermeneutics is an attempt to make clear, to make sense of an object of study. This object must be, therefore, a text, or a text-analogue, which in some way is confused, incomplete, cloudy, seemingly contradictory – in one way or another, unclear. The interpretation aims to bring to light an underlying coherence of sense.

Gadamer (1976, p. 117) calls this interpretation process a hermeneutic circle that refers to the dialectic between the understanding of the text as a whole and the interpretation of its parts, in which descriptions are guided by anticipated explanations. The movement of understanding “is constantly from the whole to the part and back to the whole. It is circular relationship… The anticipation of meaning in

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3 See also Bleicher (1980, p. 114-116) for more extensive discussion of linguistic understanding within hermeneutics.

4 Even though Gadamer emphasizes the interpretation of text, hermeneutics can be applied to many different kinds of written, verbal and non-verbal communication (Rorty, 1979, p. 344).
which the whole is envisaged becomes explicit understanding in that the parts, that are determined by the whole, themselves also determines this whole” (ibid, p. 117). Each movement from part to the whole reflects the experience of understanding and will eventually increase the depth of understanding (Polkinghorne, 1983, p. 227).

The circle of interpretation of the text is basically an everlasting process. This is the typical objection to the circle by empiricists that demand some method of definitive empirical verification in testing hypotheses - that it is really a vicious circle, and for that reason, it is judged as defective (Bernstein, 1983, p. 133). However, it is seen as such only when judged by the mistaken and unwarranted epistemological demands for empirical verification. From the hermeneutical point of view, as mentioned by Gadamer:

There is no essential difference between understanding and interpretation. All understanding involves interpretation, and all interpretation involves understanding. (This claim scandalizes those who think that there is or can be “objective understanding,” freed from all prejudices and not “contaminated” by interpretation.) The continuity of understanding and interpretation is evident in the phenomenon of translation, Gadamer points out. For there is no translation without highlighting, and all highlighting involves interpretation. We can, of course, speak of and discriminate misinterpretations and misunderstandings, but this does not mean that we do this by reaching some level in which no interpretation is involved. (Bernstein, 1983, p. 138-139)

The hermeneutic circle, consequently, is a metaphorical way of conceptualizing understanding and the process of interpretation in which researcher participates, belongs and is situated. “When one enters into the circle, it is not without the bringing of culture, gender, understandings, experiences, prejudices, anticipations, expectations, and changing biological structure, which in the end determines what can be received and brought forth as understanding” (Moules, 2002, p. 20), a new meaning is formulated. The meaning, of course, has to be understood from “the perspective that
lends existence to meaning. Any other procedure is not interpretation, but authorship” (Hirsch, 1976, p. 49).

This is in accordance with what Humphrey and Scapens (1996, p. 92) assert that in modern society reality has been transferred into images through metaphors, “signification by similarity or analogy” (Dillard and Nehmer, 1990, p. 31) that creates our social reality. Borrowing Bishop’s idea, Humphrey and Scapens, furthermore, argue that theories are images/metaphors – theorizing is a particular way of working with images so that theory is more about dealing with language rather than scientific method (ibid, p. 92). It is images that bring qualitative researchers sometimes to not necessarily cite any particular social theories (Miller and O’Leary, 1994).

3. Triangulation vs. Crystallization in Qualitative Research

Denzin and Lincoln say that:

Qualitative research involves the studied use and collection of a variety of empirical materials-case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts-that describe routine and problematic moments and meanings in individuals’ lives. Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand. (1998, p. 3)

Qualitative research, therefore, exercises multiple methods, something that Denzin and Lincoln (1998, p. 3-5) called *bricolage* and a qualitative researcher is a *bricoleur*, “a practical person who works with whatever strategies, tools, and materials are available to piece together an emergent solution to a puzzle or problem” (Bazeley,

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5 The idea has been criticized by critical hermeneutics as uncritical to the texts and accordingly it accepts statements or ideologies taken for granted. Critical hermeneutics recognizes the interpreter to construct the context as another form of text that can then be critically analyzed so that “the meaning construction can be understood as an interpretive act” (Harvey and Myers, 1995, p. 20).
Denzin (1978) introduces and then popularizes this concept as triangulation into qualitative study. The concept consists of data triangulation by using a variety of data sources; investigator triangulation by using several different researchers to interpret the same body of data; theory triangulation by using multiple perspectives in interpreting a single set of data; and methodological triangulation that is characterized by the use of multiple qualitative methods to study a single problem. Jannesick (1994, p. 214-215) incorporates interdisciplinary triangulation in the form of using other disciplines to broaden a researcher’s understanding of method and substance to the concept of triangulation.6

Triangulation has been generally considered as the way to reduce the likelihood of misinterpretation with the target to clarify meaning and verifying the repeatability of an observation or interpretation (Stake, 2000, p. 443). By using multiple methods, for example, different kinds of data can emerge from the same topic so that it will involve more data that will likely improve the quality of the research (Denscombe, 1998, p. 84).

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6 Recently, Jannesick (2000) revises her idea by adopting the idea of crystallization offered by Richardson (1994).
Albeit the initial aim of triangulation is to test the validity of qualitative research\(^7\), recently its role has been put into practice to ensure comprehensiveness and encourage a more reflexive analysis of data (Mays and Pope, 2000, p. 51). “Triangulation offers a way of explaining how accounts and actions in one setting are influenced or constrained by those in another” (Seale, 1999, p. 60). Silverman (1993, p. 158) supports the idea by saying that this can assist “to address the situated work of accounts” more willingly than “using one account to undercut the other”.

In contrast, Smith and Deemer (2000) assert that relativist implications of no-theory free observation or knowledge have consequences that the issue of criteria for judging the quality of inquiry is a matter of practical and moral affairs, not an epistemological one. Crystallization that is proposed by Richardson (2000) to replace triangulation is more appropriate to the idea of relativism. In this case, Richardson (2000, p. 934) states:

Rather, the central imaginary is the crystal, which combines symmetry and substance with an infinite variety of shapes, substances, transmutations, multidimensionalities, and angles of approach. Crystals grow, change, alter, but not amorphous. Crystals are prisms that reflect externalities and refract within themselves, creating different colors, patterns, and arrays, casting off in different directions. What we see depends upon our angle or repose. Not triangulation, crystallization. … Crystallization without losing structure,

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\(^7\) The idea of triangulation is used in the post-positivist paradigm (Creswell and Miller, 2000, p. 126) and derived from measurement of validity by quantitative methodologists/positivism (Seale, 1999, p. 53). Either explicitly or implicitly, the discussions of triangulation maintain “multiple measurement offers the chance to assess each method’s validity in the light of other methods” (Sim and Sharp, 1998, p. 25). Trustworthiness criteria of credibility (internal validity), transferability (external validity), dependability (reliability), confirmability (objectivity) (Guba, 1981; Marshall and Rossman, 1995) and authenticity criteria of fairness (a quality of balance-all stakeholders views, perspectives, claims, concerns, voices apparent in the text), ontological and educative authenticity (level of awareness by individual research participants and “by individuals about those who surround them or with whom they come into contact for some social or organizational purpose”), catalytic and tactical authenticities (stimulate and empower action) (Guba and Lincoln, 1989) have been used by constructivism to judge the goodness of an inquiry. Lincoln and Guba (2000) add the goodness criteria with resistance and post-structural transgression (multiple layers of meaning), ethical relationship (what we know and our relationships with our research participants). In general, trustworthiness and triangulation altogether tend to be used within a qualitative research perspective - post-positivism, interpretivism and constructivism (Decrop, 1999, p. 160).
deconstructs the traditional idea of “validity” (we feel how there is no single truth, we see how texts validate themselves), and crystallization provides us with a deepened, complex, thoroughly partial, understanding of the topic. Paradoxically, we know more and doubt what we know. Ingeniously, we know there is always more to know.

Instead of discussing the validity of qualitative inquiry, a qualitative researcher should respond to concerns that the natural subjectivity of the researcher will shape the research (Marshall and Rossman, 1995, p. 145). Qualitative researchers should assert that the strength of qualitative study is rested on understanding and empathy for the research participants to gain entry into their world and also that the researcher’s insights will help to describe the complex social system being studied. Despite their different ways of framing the interpretive project, they share similar understanding in the idea that “knowledge of what others are doing and saying always depends upon some background or context of other meanings, beliefs, values, practices, and so forth. Hence, for virtually all post-empiricist philosophies of the human sciences, understanding is interpretation all the way down” (Schwandt, 2000, p. 201).

4. Ethnographic Case Study Method

This study exercises an ethnographic case study, a combination of two research strategies/methods, ethnography and case study altogether within qualitative research inquiry. It is common that in reality both are not mutually exclusive and can even be used in combination (Yin, 1993, p. 59; Richardson, et al., 1996). Ethnographic research that relies on experience directly of the phenomenon being studied (Yin, 1993, p. 61)

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8 Creswell (1998, p. 58-68) differentiates the two from their focus, discipline origin, data collection, data analysis, narrative form and general structure of study. However, they share similar paradigm within qualitative research inquiry, namely constructivism (Guba and Lincoln, 1998, p. 203), also called interpretivism (Burrell and Morgan, 1979; Guba and Lincoln, 1989, p. 83) within subjective epistemology (Guba and Lincoln, 1998, p. 83; Broido and Manning, 2002, p. 436).
and accordingly it deals with actual practices in real world situations (Harvey and Myers, 1995, p. 22) and is used in combination with case study to explore the case of Perbanas Business School (PBS) Jakarta “over time through detailed, in-depth data collection involving multiple sources of information rich in context” (Creswell, 1998, p. 61).

Ethnographic process involves prolonged observation of a cultural or social group or system “through participant observation in which the researcher is immersed in the day-to-day lives of the people or through one-on-one interviews with members of the group. The researchers study the meanings of behaviour, language, and interactions of the culture-sharing group” (Creswell, 1998, p. 58). This framework that originates from the cultural anthropology can also be applied to organizations with their various traditions, customs and cultures (Vinten, 1994; Van Maanen, 1988). Participant observation that devotes a long period of time in the empirical domain hence becomes the dominant mode within ethnographic research (Preston, 1991, p. 46). “The narrative produced from this immersion reflects and embodies a hermeneutic understanding of the subjectivities of both the researcher and the researched” (Dey, 2002, p. 108).

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9 The ways in which researchers define ethnography are varied and fuzzy. Some equate ethnography as a research method that involves in situ participant observation (see, for example: Van Maanen, 1996), while the others see ethnography from its epistemological stance, which is firmly located within a socio-cultural frame of reference (Ball and Ormerod, 2000, p. 149). It is, however, interesting to understand ethnography as a radial category that exhibits prototype effects as mentioned by Lakoff (1987) and quoted by Ball and Ormerod (2000). “Radial categories encompass a central prototype, prototypical case as well as a number of variations from this prototype. In this way, the prototypical case of an ethnographic method can be viewed as a template against which to compare other, possibly less typical, instances of ethnography. To the extent that any observational method varies from this prototype (e.g. by omission of one or more attributes) then it is less a central case of the ethnographic technique. Of course, under this conceptualization, issues remain as to how far one can deviate from a central case in order for a method still to be referred to as ethnographic in nature”. (Ball and Ormerod, 2000, p. 149).
Tedlock (2000, p. 465) mentions that “participant observation was originally forged as a method in the study of small, relatively homogeneous society” that needs the researcher to live in a society for extended periods of time, have learned the local language, participated in daily life, and steadily observed. The reason behind this action is the closer the participation is to the real world, the more detailed the observation that may be the result. Indeed, the successful participant observer will frequently be the observer who blends entirely into and is accepted as a member of the community and substitutes the community’s ways of thinking for his/her own. McSweeney supported this view by saying that:

Participant-observation always means that the research was undertaken in the midst of whatever action is studied. It takes place within a defined space, a naturalistic one, where the participants act and within a defined time, real-time – contemporaneously with the actions being studied. It can thus be distinguished from research that is exclusively historical. (1995, p. 248)

Despite its origin from ethnographic studies, it has been argued that all social research is a form of participant observation for the reason that “we cannot study the social world without being part of it” (Atkinson and Hammersley, 1994, p. 249). Basic to all qualitative studies are discussions of the role or stance of the researcher as a participant observer (Marshall and Rossman, 1995, p. 79) that demands complete commitment to the task of understanding (Sanday, 1979, p. 527). “The researcher as employee is a role of total immersion, and to all intents and purposes the researcher is one with the employees alongside whom he or she will work. The research may be undertaken in an overt or covert way” (Vinten, 1994, p. 31).

In line with this idea, participant observation is applied in this study in the form of direct involvement of the researcher into the case (PBS Jakarta) as an employee in a
managerial position as well as an academic staff member within the organization. Participation in this study is complete participation (Spradley, 1980, p. 61; Burns and Grove, 1993, p. 566) since investigator is a full member of the group. The position of the researcher in this study is similar to a study done by Coy and Pratt (1998) in which both researchers were previously employed by the subject of the case they were studying (a university in New Zealand). By being a member of the group studied, the researcher has huge advantages in providing adequate descriptions of how and why things get done in the way they get done.

This could, therefore, be argued to be the concept known as “go native” as insisted upon by ethnographic researchers to absorb the language and culture of the people under study (Harvey and Myers, 1995, p. 19) and is confirmed since the researcher is part of the subject being studied. New interviews thereby are needed and are valuable to provide more insights into the naturalistic inquiry in order to rethink and reconfirm the researcher’s pre-understanding as an employee that consequently is unable to start with a neutral mind (Oliga, 1988, p. 99). It has to be recognized, however, that there is an impossibility of absolute truth since the observer is unavoidably an interpreter, a writer regardless of methods used (Clifford and Marcus, 1986). This study is accordingly explicitly an interpretation.

Many studies have been done in accounting using participant-observation while the researchers are employee of the case being studied (Richardson, et al, 1996; Coy and Pratt, 1998; Perez and Robson, 1999; Collier, 2001; Soin, et al, 2002). Richardson et al. (1996), for example, clearly state that their empirical research reported was conducted by one of the researchers who was already a member of the organization and
having been recruited as a management accountant. Richardson et al.’s research is interpretive in origin. However, as they explicitly state that “there is the need for the ethnographer to maintain some intellectual distance from the context” (1996, p. 10); it is implicitly ethnographic research with an objective intention.

Taken slightly differently, a study by Soin et al. (2002) that involved one of the researchers as employee of the case studied clearly acknowledged the influence of the researcher’s own bias in their study regarding the role of participant observer by saying that:

As participant observer, the researcher’s reality was affected by her closeness to the ABC team and influenced her perception of events within the organization and the people within it. … Despite the researcher’s awareness of her own bias and her efforts to avoid this, much of her interpretations were influenced and shaped by her own sense of being an ABC ‘team member’. … Given the mixture of rational and intuitive approaches to knowledge, the researcher was a human instrument whose experience were key events to be analyzed as data (Soin et al., 2002, p. 252-253).

Collier (2001) performed a field study in a contextually technical environment (Broadbent and Guthrie, 1992) to develop a rich theoretical framework capable of explaining the quality of the observed social systems and practices in which devolved budgets were introduced in the police force by adopting what Chua (1988) calls “ethnomethodology ethnography” 10. Collier’s study exercises a wide range of data collection. It includes contemporary historical observation that captures “a record of events as they occur, from the researcher’s perspective”, namely participant observation

10 It has to be noted that there is no single understanding about ethnographic genres. Jonsson and Macintosh (1997), for example, differentiate ethnography into cognitive anthropology, symbolic interaction and ethnomethodology. Chua (1988) discusses in detail the use of ethnomethodology in management accounting research. It has to be realized, however, that even ethnomethodology itself has developed into a number of more or less distinct and sometimes incompatible lines of inquiry (Ritzer, 1983, p. 341-350)
by becoming employee of the organization being studied “together with others’ reactions to those events gained through interview” as well as documentary research portraying organizational events (Collier, 2001, p. 471).

In relation to “case study”, the term itself has multiple meaning. It can be used to describe a unit of analysis/“a choice of what is to be studied” (Stake, 2000, p. 435; Holloway and Wheeler, 1996, 156) which aims to describe and explain the phenomenon of interest (Zucker, 2001, p. 1) or to describe a research method (Yin, 1994; Creswell, 1998; Scapens, 1990). As a research method, not a methodology, its use depends on both the nature of the research that could be descriptive, illustrative, explorative, evaluative, or explanatory (Yin, 1994, p. 15; see also Scapens, 1990) and the methodology (philosophical assumptions) that is used by the researcher (Scapens, 1990, p. 266).

Case study as a research method, according to Yin (1984, p. 23) can be defined as an empirical inquiry that:

(a) investigates a contemporary phenomenon within its real-life context; when
(b) the boundaries between the phenomenon and context are not clearly evident; and in which
(c) Multiple sources of evidence are used.

The current research is directed to describe and interpret a particular contemporary social issue in its real-life context by using multiple sources of evidence. The above definition, which well suits “how” and “why” questions that are explanatory rather than exploratory and descriptive (Yin, 1984, p. 20), properly fits the purpose of this study.
Chapter 4 – Methodological Issues

Yin (1993) maintains that the case study’s design is ideally based on a well-grounded theory in order that the findings can be used to test a priori theory. In contrast, Eisenhardt (1989; 1991) asserts the use of case study to promote theory building as a primary goal rather than to test an existing theory\textsuperscript{11}. In her view, research questions and propositions can be developed during data collection rather than prior to it for the reason that:

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\text{… theory building from case studies does not rely on previous literature or prior empirical evidence. Also the conflict inherent in the process is likely to generate the kind of novel theory which is desirable when extant theory seems inadequate (Eisenhardt, 1989, p. 548).}
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Regardless of the differences, prior preparation needs to be carried out by qualitative researchers undertaking case studies on individuals and organizations, rather than simply allowing the case to speak for itself (Crosthwaite \textit{et al}, 1997, p. 5 quoting Stake, 1995).

In accordance with the interpretivism adopted, this study acknowledges case studies informed by social science that perceive accounting practices as socially constructed. The practices can be changed by the activities of the social actors themselves in order to construct social theories of accounting – explanatory theories to understand the social structures which shape current practices (Scapens, 1990, p. 268). The implication is that “case studies should explore the day-to-day accounting practices of real people in the context in which they work” (Scapen, 1990, p. 278) since the fundamental process through which social order is constructed is often basically determined by emotion, not rational calculation (Pentland, 1993, p. 607).

\textsuperscript{11} This idea seems to be inspired by grounded theory research of Glaser and Straus (1967) who describes the primary goal of qualitative research is to generate theory, rather than to test theory or be merely description.
Whereas quantitative inquiry, namely positive accounting research, constructs theory based on large numbers of observations and relatively simple relations for predictions (Scapens, 1992, p. 376), the construction of explanatory social theories needs to understand the complex inter-relationship of a large number of elements in a single system (Scapens, 1990, p. 268). Accordingly explanatory case study is essential for this inquiry to explain the links in complex real-life interventions (Yin, 1994, p. 15) within a single organization. Yet, the descriptive element of the case study makes the study also explorative (Soin et al, 2002, p. 252).

Ethnographic case study method is used in conjunction with an ongoing participant observation as employee, immersed in the daily life of the case being studied. Despite the fact that tension between universalistic and relativistic cultural values among ethnographers remains unresolved, this study takes the side that observations are guided by the values of the observed in the sense that the researcher is taking an insider (emic) rather than an outsider (etic) perspective (Vidich and Lyman, 2000, p. 41; Sim and Sharp, 1998, p. 25) within a contemporary phenomenon in its real-life context inspired by the case study method without necessarily imposing the researcher’s own conceptual framework. It has to be noted, however that understanding in interpretivism, in part is informed by the researcher’s own pre-understanding to address the connections between subject and object and between meanings and practices (Llewellyn, 1993, p. 233).

The ethnographic method here plays an important role in enriching the case study because “one could even do a valid and high quality case study without leaving
the library and the telephone” (Preston, 1991, p. 46, quoting Yin, 1984, p. 22; see also Tinker, 1998, p. 20-21). This method, that is identical with participant observation, is required to define the world from the perspective of those studied and to gain as intimate an understanding as possible of their way of perceiving life (Atkinson and Waterloo, 1998, p. 44). However, to achieve this aim, that method needs to be supplemented with additional techniques commonly used in qualitative study such as interviews, life histories, archival records and document analysis and various non-reactive measures such as “physical artifacts” (Yin, 1994, p. 80).

5. Fieldwork Stages

Even though participant observation for gathering data is “basic to all qualitative studies (Marshall and Rossman, 1995, p. 79), it has been renowned as ethnographic research method (Atkinson and Hammersley, 1994, p. 248). Participant observation has become the dominant mode of data sources and data gathering within this study as it adopts an ethnographic case study method.

As part of multiple data sources used, formal and informal semi-structured interviews were conducted. The interviews were directed to reconstruct events by asking interviewees to think back to the situation of how accounting information was produced and used during the period of 1987 to 1999. The interviews were also directed to gain insight into the role of accounting in the PBS Jakarta’s managerial conduct after the demise of the New Order government when the political situation was more inclined toward the values and practices of a democratic society. Participant observation alone cannot accomplish this reconstruction of events.
Other sources of evidence in the forms of documents and archives were used as well (Yin, 1994, p. 79-90; Tellis, 1997, p. 7-8). The data used ranges from statistical and administrative documents to financial statements and budget reports. As mentioned by Yin (1994, p. 81), the use of documents is important to corroborate and augment evidence from other sources. In case the documentary evidence contradicts others, further examination into the topic is needed. Due to the societal environment under the New Order at the time, it is highly likely that the documentary evidence may contradict rather than corroborate the other sources of evidence especially with the interviewer’s evidence.

5.1. Participant Observation

This study exercises participant observation in the form of the researcher’s involvement as part of the managerial as well as educational staff of the PBS Jakarta during the period studied. It is an ethnographic research, namely complete participation\(^\text{12}\), in the way that the researcher is “a full member of the group and participates in all the group decisions” (Atkinson and Waterloo, 1998, p. 56) while he carried out his research during the course of his normal job (Holliday, 2002, p. 26). The involvement allows the researcher to hear, see and experience “the reality of the organization”. Essentially, it is a case study of a specific bounded system namely an academic institution (Holliday, 2002, p. 18) based on ethnographic participant observation whilst the researcher already had an academic as well as managerial positions within PBS Jakarta before taking on the role of observer. The researcher’s involvement with the case accordingly becomes one of the important sources of data used.

\(^{12}\) It has been justified for the reasons that “it makes possible the study of inaccessible groups or groups that do not reveal to outsiders certain aspects of their lives” (Nachmias and Nachmias, 1996, p. 283).
The researcher had been involved with the PBS Jakarta from 1987 until 2001. As an employee, his involvement ranged from an academic staff member to became Secretary of the Department of Accountancy in 1994 to 1995, Director of Center for Research & Community Development in 1996 to 1997, and the founder as well as the Director of the Graduate Business Program from 1999 to 2001 respectively. All the roles that were previously occupied by the researcher are emphasized to show how access to experiential data collected basically were gained through various channels and contacts throughout the period of the case taken. All of these positions also confirmed that the study implemented the concept “going native” as explained by Hammersley and Atkinson (1995).

This intensive involvement within the organization studied in many managerial positions gave an opportunity for generating insight into the role of accounting in the daily managerial conduct of the school. The evidence gathered therefore is inherently in the subjective experiences of the researcher (*emic* perspective) as a managerial staff member who consequently was also involved within the system of the PBS Jakarta. The researcher as a full member of the research setting accordingly had also concealed the role of observer so that the level of participation within this study was complete participation (Spradley, 1980, p. 61-62).

The basic methodological argument for participant observation as explained by Guba and Lincoln (1981, p. 193) is to maximize the researcher’s ability “to grasp motives, beliefs, concerns, interests, unconscious behaviors and the like”. It allows the researcher to see the world as his subjects see it, “to live their time frames, to capture
Chapter 4 – Methodological Issues

the phenomenon in and on its own terms, and to understand the culture in its natural, ongoing environment” (p. 193). Being subjective in viewing the nature of the case is all about participant observation that is reflected from the observer’s involvement as a member of the community and substitutes the community’s ways of thinking for his own.

Understanding of meaning in an interpretive process, as adopted by the current study, requires the researcher to come as close as possible and to enter into the subject to be known on its own terms. Park emphasizes that:

The knower and the known thus participate in the process of knowing, in which what they bring to the encounter merges together. This process assembles disparate pieces of information into a meaningful whole or pattern, rather than dividing it into analytical components as variables in a functional equation. Interpretive knowledge is synthetic and integrative, rather than analytic and reductive. (2001, p. 83)

Knowledge resulted from the interpretive process, is representational in the sense that the researcher re-describes the object of knowing, that in turn re-presents itself over and over again for interpretation (Fay, 1975 as quoted by Park, 2001, p. 83).

5.2. Interviews

In-depth interviewing that can be conducted through unstructured and semi-structured interviewing (Minichiello et al, 1990, p. 90) can be defined as “repeated face to face encounters between researcher and informants directed toward understanding informants’ perspectives on their lives, experiences or situations as expressed in their own words” (Taylor and Bogdan, 1984, p. 77). Inherent within this concept are four basic assumptions of the in-depth interviewing that comprise of a greater length of time spent in interviewing the informant; egalitarian concepts within the interview;
emphasizing the informant’s perspective rather than researcher’s perspective; and retrieving “the informant’s world by understanding their perspective in language that is natural to them” (Minichiello et al, 1990, p. 90).

This study as a qualitative research, exercised formal semi-structured and informal unstructured interviews in gathering data to reconstruct the events (Frey and Montana, 1991, p. 176) and also to reconfirm the researcher’s pre-understanding about the case. Hence, many interviews focused on events that took place within 1987 to 1999. The semi-structured interviewing process that is closely associated with unstructured interviewing, develops questions based on a certain topic area with the mode of asking that follows the model of an unstructured interview process (Minichiello et al, 1990, p. 92). It requires the researcher using a broad topic to guide the interview without fixed wording or fixed ordering of questions (Minichiello et al, 1990, p. 92). Qualitative interviewing indeed is more flexible in responding to the direction taken by the interviewees and it might be adjusting the research’s emphasis in case significant issues emerged during the interviews take place.

The formal semi-structured approach was used to interview managerial staff that held a managerial position during the period of 1987 to 1999. The interviews were designed as conversational to allow the interviewees to speak naturally from their own experiences. Accordingly, the process of interviewing emphasizes how to listen rather than on how to ask questions (Ribbens, 1989, p. 586).

Being an insider of the PBS Jakarta has provided unique and privileged access to the eligible respondents, as all of them are colleagues. The researcher knows their
environment well and knows by instinct what had to be done in exercising the friendships to arrange the interviews. These will also minimize the possibility of misinterpreting interviewees’ words and intentions (Malmi, 1997, p. 468). In addition, the familiarity with the power structures, the moral labyrinth and “subtexts” of the school, gave him an opportunity to ensure “what taboos to avoid, what shibboleths to mumble, and bureaucrats to placate” (Hannabus, 2000, p. 103).

In all, twelve formal interviews were conducted with the staff and each lasted from one hour to one hour and thirty minutes, occasionally longer during March 2003. These individuals were selected to reflect the diverse backgrounds and perspectives that exist within the PBS Jakarta. The selection also represented different hierarchical levels of managers that held the position during the period of 1987 to 1999 and some of them still hold those managerial positions up till now. The interviews that were directed to collect evidence from the managers’ experience points of view were tape-recorded. Follow-up issues arose subsequent to the main interviews which needed additional detail and clarification and were sought into informal surroundings without being taped.

Informal unstructured interviewing, in addition, was conducted to gather data from non-managerial educational as well as administrative staff. Unstructured discussions (Malmi, 1997, p. 467) in the form of a normal everyday conversation with minimal controlled conversation geared to interviewer’s research interest (Minichiello et al, 1990, p. 93) were exercised.
Chapter 4 – Methodological Issues

Due to the cultural obstacle of benevolence-obedience relationship especially within the lower level of administrative staff, an informal and on-going basis of conversation was considered the most suitable form of interviews to make them feel free to express their experiences. Therefore, all of these took place in daily interactions while the researcher was undertaking his activities in the PBS Jakarta. On average it took one hour and thirty minutes per interview even though the longest could last for 5 hours. In order not to obstruct the dialogue, however, the interviews were not tape-recorded.

The topics selected to be discussed during the interviews ranged from their roles within the organization, the influence of the New Order political and cultural conducts over the management of the PBS Jakarta, managerial conducts of the head of the PBS Jakarta, the role of accounting for planning and control in the past and recently and the performance evaluation system used. In general, attention was focused on the individual’s point of views about organizational control system practiced under the authoritarian-bureaucratic regime of the New Order government.

5.3. Documents and Archival Records
To provide the institutional context and also to obtain the official organization’s perspective, documentary data were used in this study. Even though texts as contained in the documentary data are silent, these could be used to draw a descriptive and historical context of the case to make sense of the situation. Furthermore, the data can provide a powerful link with interviews and participant observation in terms of the degree of correspondence between what people say – espoused theory and what they actually do – theory in action (Collier, 2001, p. 471).
A variety of documents utilized were mainly from internal records that included statistical evidence that related to the development of the institution such as student’s enrolment records and physical development of infrastructure, books contained in the school’s history, employee data, and organizational structures. Furthermore, evidence available from the documentary records, such as published financial statements, financial and operating budgets, and performance evaluation reports related to organizational control systems were collected as well. The researcher, as emphasized by Yin (1994, p. 84), has to carefully ascertain the conditions under which all the evidence is produced as well as its accuracy. Denscombe (1998, p. 162) supports the idea by emphasizing the need to be more cautious not to accept the data at face value.

Many external documentary and archival records from the government of the Republic Indonesia and external agencies were also utilized. Regulations concerning the management and operation of tertiary education were collected from the website of the Directorate General of Higher Education of the Department of National Education Republic of Indonesia. These included National Education Law 1989, Government Regulation No. 60, and several publications related. Also used, as a source of data was a book which contained the profile of the ten foremost tertiary business schools in 1996 in Indonesia published by a private agency.
6. Qualitative Data Analysis

Despite its diversity in practice, the process of qualitative data analysis, according to Seidel (1998, p. 2) involves a symphony of three notes of noticing, collecting and thinking about interesting things as he depicts in figure 4.1:

Figure 4.1: The Data Analysis Process

Seidel (1998, p. 2) argues that the process is not simply notice, collect, and think about things, and then write a report, but it is iterative and progressive because “it is a cycle that keeps repeating”; recursive because “one part can call you back to a previous part”; and holographic because “each step in the process contains the entire process”.

The process described is basically an infinite spiral and it is carried out simultaneously. Consequently, data analysis cannot be identified separately from the data collection. Soon after the first data are collected, data analysis begins to guide decisions related to further data collections. “The researcher as a whole person is totally
involved (by) perceiving, reacting, interacting, reflecting, attaching meaning, (and) recording” (Burns and Groves, 1993, p. 565).

Following Stake’s opinion (1995), theoretical propositions and empirical evidence described in previous chapters were used to explain the data analyzed. The explanatory and descriptive nature of the study cannot be separated from the process of selection of literature that combined with the researcher’s experiences into the context that guided the objectives and determined the questions of the study. Thus, the propositions used are a priori models that are developed from the intermingling of the researcher’s own experiences and literature reviews.

The tape-recorded interviews were transcribed and analyzed individually manually. Tracing voices through individual interview transcripts in order to maintain the differences and contextual situation that existed among respondents was carried out during the analysis. Doucet and Mauthner (2001, p. 9) mention that this is conducted to avoid data analysis simply confirming what the researcher already knows. They say “if this is the case, in no way has the respondent changed our view or understanding, thus defeating the point of doing the study in the first place” (p. 9).

This study is reflexive in the sense that the researcher is part of the social scene by his involvement in the case for a long period of time. Hence, interaction occurred between the self (researcher) and the data during the analytical process that might shape the interpretations (Tham, 2003, p. 187). As argued by Holliday (2002, p. 146), being reflexive means acknowledging the researcher’s interaction with researcher’s possibility changing the culture he is investigating and at the same time opening “all
channels of perception to capitalize on what is revealed about the culture, during this process”.

Being reflexive in the data analysis process involves a balancing act among three different and occasionally conflicting standpoints. Those are the numerous and various voices and stories of each of the individuals interviewed; the researcher’s voice; and perspectives represented within existing theoretical frameworks in the research area that the researcher brings to the study as mentioned in the previous paragraph (Doucet and Mauthner, 2001, p. 11).

It is also inter-subjective for the reason that the reconfirmation of the researcher’s experiences was done through interviews with other participants and through documents analysis. These processes involve the exploration of the personal feelings and experiences of the researcher that might influence the study and also integrate the understanding resulted into the study itself (Burns and Grove, 1993, p. 567). As Scapens (1990, p. 277) insists the researcher must interpret social reality “in which accounting practices are embedded” (Scapens and Roberts, 1993, p. 3).

7. Concluding Remarks

This chapter has clearly declared the methodological stance that is used by this study. Interpretivism that follows the ontology of relativism and the epistemology of subjectivism relies on hermeneutic methodology which basically concerns interpretation through language analysis. The hermeneutics circle, as the process of interpretation, needs the researcher’s involvement with his understanding, experiences,
even his prejudices and expectations since there is no difference between understanding and interpretation in which the researcher participates and belongs to. The researcher’s subjectivity, therefore, becomes the strength of this research as it will shape the research itself depending upon his angle. There is no single truth within interpretive study.

Ethnographic case study is considered the appropriate method to be used in this study in which the researcher was immersed in the day to day lives of the people inside the case being studied as he was an academic as well as a managerial staff member of the research setting. Thus being subjective to see the nature of the case is reflected from the researcher’s point of view as a result of his involvement as a member of the community in that way he substitutes the community’s ways of thinking for his own. Understanding of meanings requires such involvement in which the subject to be known and the researcher need to participate in the process of knowing since interpretive knowledge is synthetic and integrative.
Chapter Five

Perbanas Business School Jakarta:
A Tale of Its Progress and an Individual’s Domination

1. Introduction

It is important to discuss the historical background of the school in order to place accounting practices in the period studied in its organizational, social and historical contexts. Contextualism, as it is called by Stewart (1992, p. 58), will avoid using past accounting practices to justify those of the present and to use those of the present as the criteria to judge the past. The facts that have accumulated never by themselves provide explanations of how and why accounting practices have developed in a specific way (Miller and O’Leary, 1987). It also involves an interpretative arrangement of the facts by the researcher based on the view that the “facts speak for themselves” (Bulmer, 1984, p. 3 as quoted by Stewart, 1992, p. 59).

This chapter intends to depict the story of the process in which power was accumulated in the hand of Thomas Suyatno (TS), a central figure in this study and who had held an ultimate and decisive power within the school for a long period of time: from 1974 until 1999.\footnote{He had to share power with his older brother Suhardi (S) from October 1995 when he appointed S as head of the school until 1999. However, the ultimate power holder was still TS. \textit{In this study, the head of the school refers to TS. Otherwise, it will explicitly mention the name, for example, S.}} To understand his domination over the institution, it is important to explore the historical development of the school that cannot be separated from his enormous contribution to the success story of the school itself. How he built his influence and power and how he intentionally adopted the New Order’s culture into
Chapter 5 – PBS Jakarta: A Tale of Its Progress and Individual’s Domination

the school can only be understood by narrating the development of the school from its inception.

Understanding the historical background of the school’s development will provide a rich understanding of the production and reproduction of the concrete system of social action – organizational control system – within the PBS Jakarta as necessary means to provide further analysis of interplay among accounting-organizational culture-institutional environment.

2. Initial Involvement

On 19 February 1969, National Private Banking Association (Perhimpunan Bank-Bank Umum Nasional and known by its acronym as Perbanas) established a Foundation of Perbanas’ Education known as Yayasan Pendidikan Perbanas (YPP). At the same time, Academy of Banking (Akademi Ilmu Perbankan Perbanas, known by its acronym as AIP) was established. It was the origin of Sekolah Tinggi Ilmu Ekonomi (Perbanas Business School or PBS as it is referred to in this study) Jakarta in 1985.

The AIP as a new education institution soon faced difficulty in attracting new students. Due to a constant decline in student enrolment, on 11 October 1974 the Foundation (YPP) decided to reshuffle the personnel of the board by appointing two new entrants that were assigned as head and treasurer of the YPP. The reshuffle was intended to rescue the institution from the brink of collapse. One of the new entrants was TS who later became the most influential person within the PBS Jakarta for nearly

2 At the time, the student enrolled sharply dropped from 100 to become only 28 students (Bina Informasi Pendidikan, 1996, p. 23).
two decades. He was appointed as treasurer of the YPP and vice director of the AIP respectively. The direct involvement of TS in the management of the YPP and the AIP boosted the development of the AIP rapidly. The year of 1974 accordingly became the starting point for the recovery and development of the institution to become a respected private higher business school institution in Indonesia.

The positions gave TS an opportunity to deal with financial issues related to the development of the AIP. These placed the responsibility with financial decisions regarding the AIP directly with him since he gained a direct control over the cash and finances of the institution. In 1979, the academy established a new department – Department of Accountancy - TS was the founder as well as the first head of the department. It was in relation to this new department that the name of the institution in 1982 was later changed to become the Academy of Accounting and Banking (*Akademi Akuntansi dan Perbankan* known as AAP).

### 3. Accumulating Power

The year of 1982 marked the beginning of the domination of the AAP by TS. It was characterized by his appointment as the director of the AAP and his success in bringing in his older brother Suhardi (S) as vice director of Student Affairs. After this, these two persons dominated the institution until 1999. Because “interpretive work reflects the basic assumption that behaviour is to be understood, not as the patterned response to a clear, objective and external reality but rather in terms of actions emanating from the meanings people attach to their social world” (Nahapiet, 1988, p. 333), this period is
important for understanding the role of accounting as an individual person, namely TS, made and interpreted the accounts.

The steady growth of students enrolled and the starting point of the physical development of the institution characterized this period. The AAP moved to its own campus with the first two and three story buildings in 1983. A five-story building dedicated in 1985 then followed it. To anticipate further development of the institution, on 2 May 1985, the management decided to change the AAP to become Sekolah Tinggi Ilmu Ekonomi Perbanas (Perbanas Business School or PBS) Jakarta with two S1 degree granting programs in financial management and accounting equal to undergraduate degree programs and two D3 non-degree granting programs in banking management and accounting equal to a polytechnic program.

In conformity with the induction of the institution becoming the Perbanas Business School (PBS) Jakarta, TS was appointed as the school head with his older brother, S, as vice-head of Student Affairs. The government regulation PP No. 30/1990 mandated that management of schools of higher education institutions be headed by a head that is assisted by three vice-heads:

- Vice-Head of Academic Affairs
- Vice-Head of Finance and general Affairs

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3 Currently, the school has seven buildings that comprise the first three buildings mentioned and a seven story, an eight story and a nine story buildings that were built and completed in 1987, 1992, and 1996 and a three story building dedicated to the Foundation’s office.

4 Government Regulation PP No. 3/1988 that shortly replaced by the PP No. 30/1990 mentions that the top management of college of higher education like Perbanas Business School Jakarta consists of a school head assisted by three vice-heads. Before promulgation of the regulation in 1988, the practice followed the managerial practices of a university in which the top management of the school as a faculty within the university was headed by a dean who was assisted by three vice-deans.
Vice-Head of Student Affairs

From the time that TS became the school head, he always maintained that out of four members, three were from his religious group – a minority religious groups in Indonesia. Related to this issue, Sodikun, a former vice-treasurer described the head’s preference in appointing staff from his own group in interesting words:

He (the school head) always preferred to give a lot of important assignments and posts to people from his religious group in order to create loyalty and … they would almost certainly obey to him.

Institutionalizing a culture that had an affinity to Javanese culture into the school, he introduced the concept of Paguyuban (an organization based on ascribed status). According to Usman (2001), this concept is equal to the concept of gemeinschaft, a concept that views social relationship between individuals based on common feeling, kinship or membership in community. As a paguyuban, the working relationships between him and the staff were dominated primarily by a strong sense of common identity, close personal relationships, and an attachment to traditional and sentimental concern inspired by the spirit of paternalism. He named the school’s community as Paguyuban Widyani - a name that referred to the gemeinschaft in a higher education institution.

He implemented the concept of paguyuban according to his own view in the daily managerial practices when even his wife could intervene into the chain of

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5 In 1988, a re-shuffle took place by replacing the only vice-head from outside the head’s religious group with the one from his group. As a result, all vice-heads appointed for the period of 1988 to 1992 were from the head’s religious group. Apart from this period, all other periods followed his first formula in which one of them came from outside his religious group.

command within the school by giving orders to certain staff to do jobs for her. Suwardi who previously held various managerial positions clearly mentioned his experience:

…In the past, the wife of TS, when the number of staff was still under 100, I think her position (in front of staff) might be relatively equal to TS himself. If calling for example, she could call from home to the PBS Jakarta without mentioning her name but directly said what she wanted… assuming that everyone had to know who she was. Yes, I had the experience of being called like that. One day, I got a call from her from home. Because I could not identify her voice as who was calling me I was judged miscreant.

From the beginning of his involvement in the school, TS simultaneously held three positions in the Perbanas, the YPP, and the school. As a matter of fact, however, it was from 1982, when he was appointed as the director of AAP, that the concentration of power with him was completely established. Accordingly, the control mechanism was placed solely upon him. The position as treasurer of the YPP gave him an opportunity in dealing with funding of the school’s development since he did not need the approval from the YPP as the owners’ representative.

It is under these circumstances that the institutionalization of his values and beliefs into the school took place and was made possible. The working relationship he built was more oriented towards paternalism and nepotism as mentioned by Nico, one of his trusted staff:

Yes, I definitely agree that nepotism, I think, had become everyday practices even though I believed that it was not bad if it was used in a proper way with using certain criteria accepted within the community. The head of the school tended to place himself not as a CEO but as a father … his relation with subordinates was more reflecting individual relationship (patron-client) than hierarchical relationship within a rational bureaucracy of an organization.
4. Dominating the School

Following his induction as head of the PBS Jakarta, TS introduced ten year period planning called *Rencana Induk Pengembangan* (Master Plan for Development) 1985-1995 that was known by its abbreviation as RIP 1985-1995. The RIP formally symbolized his idea of developing the school for the period stated. It dealt with the planning for the development of the school that ranged from learning development – recruitment and further education for academic staff, research and community development projects, the introduction of departments of economics and taxation to the development of support systems consisting of recruitment of administrative staff, building development, library, accounting and banking simulation’s facilities and computer facilities.

After the institution became the business school in 1985, the physical facilities and learning process were developing remarkably quickly. As mentioned before, four new buildings had been built after 1985. Following the increasing number in student enrolment, the number of academic staff was increasing rapidly as well. In the period 1997/1998, total students enrolled were 10,702, whereas at the same time there were 470 academic staff available.

The accumulation of power in the hands of TS that, at the time, resulted in his domination inside the school was inevitable. He had built his domination from the beginning of his involvement with the school by actively involving the organizational committee of the Perbanas, as the owner of the PBS Jakarta since 1974, as vice

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7 Data was taken from Centre for Planning and Statistic PBS Jakarta. In 1974, the school had only ten academic staff members.

He was also involved directly with the YPP as treasurer of the YPP from 1974 when he was appointed as vice-director of the AIP until 1993, secretary (1993- 1995), executive officer of the YPP (1995-1999). The executive officer was a new position he created when he did not have direct control over the foundation any longer since he had been replaced from his last position as secretary to become the vice head of YPP. Besides he had been forced by government regulation\(^8\) to given up his position as the school head. By creating this new position, he regained his power over the YPP and the school. He was the only member of the YPP who was directly involved in daily managerial decision making concerning school affairs.

Under these systematic, centralized, formal, organizational structures of the Perbanas, the YPP and the school itself, the domination of the school by TS was very effectively built up. He also indirectly benefited from the fact that most committee members of the Perbanas and the YPP were banking executive officers that did not have any knowledge of how to run an educational institution; beside they were mostly busy with their own activities. The fact that under the management of TS, the school was developing very satisfactorily made them willingly hand over all school’s matters to him. His domination over the school’s management therefore was indisputable.

\(^8\) According to the Government Regulation PP No. 3/ 1988 concerning higher education institution, maximum period to hold a position of Head of a college higher education as the PBS Jakarta is two periods respectively. This persisted under the Government Regulation PP No. 30/ 1990 and PP No. 60/ 1999.
TS had successfully controlled all segments of the school’s community. Jerry, a former trusted staff member, turned into a rebellious staff member, described how the school head built his domination by controlling prominent figures inside formal and informal groups and segments of the school’s community:

TS cleverly controlled all segments of the community within the school from student’s organizations, student’s activists, managerial as well as academic staff, and indeed all of his vice-heads. He controlled all student prominent figures. All managers from the top to the lowest level were installed through his endorsement. Informal groups and the “outsiders” were localized by giving certain positions without any significant managerial power to the key figures within the groups in order to create an image that they were part of his aides as well in front of all staff. All of these efforts showed how powerful and dominant he was within the institution.

The domination of TS within the school apparently is in line with ideas of domination within the Weberian tradition. Courpasson (2000, p. 144) summarizes the tradition as follows:

1. Organizations can be centrally governed, i.e. organizational governance can correspond to a political structure stimulating intentional and deliberate strategies of domination.
2. Domination can be, under some conditions (especially under conditions of legitimacy), the efficient mode of governing organizations, both for people and for ‘dominators’.
3. Thus because of this efficiency, obedience is always rational, and can even be considered as the most desirable way of living and acting within organizations. Roughly speaking, there is a capacity both to govern and to be governed.

Giddens’ definition of power as “the capacity to achieve outcomes” (1984, p. 257) had been implemented by TS within the school. This perspective sees power as having constraining as well as emancipating properties. “Action depends upon the
capability of the individual to ‘make a difference’ to a pre-existing state of affairs or course of events. An agent ceases to be such if he or she loses the capability to ‘make difference’, that is to exercise some sort of power” (Giddens, 1984, p. 139). To Giddens, therefore, power is created by structures of domination and by their reproduction. Similar to Weber, Giddens does not see domination as enslavement given that it entails action rather than submission and there is a possibility to challenge the interpretation (Courpasson, 2000, p. 144).

Most staff within the PBS Jakarta did not feel the domination by TS was enslavement. They viewed that his managerial style had given satisfactory results to the school performance as well as to the continuation of staff welfare. In fact, he did everything carefully and, in general, most staff valued him as a wise leader. From the Weberian perspective, therefore, staff obedience can be seen as the most desirable way of living and acting.

The signification of his action within this context was his ability to transform the PBS Jakarta to become one of the most respected business schools in Indonesia from scratch⁹. TS’s capability to change the school’s performance was indisputable. This situation contributed to the growing staff perception that the domination of TS in the school was appropriate. It was also seen as the immediate way to mobilize vertically by his several key trusted staff. His achievement made him legitimate and acceptable in front of owners and most staff. As will be explained later, the constraining culture - Javanese culture - and institutions - patterns of class within the

⁹It made easy for him to impose his cultural perspective – including the Javanese culture - to become the school’s culture. He was the one who contributed most to the school development.
Indonesian society in general and within the Javanese people especially – played an important role behind the staff perception and acceptance.

5. The Governing Bodies

As a private higher education institution owned by the Perbanas\textsuperscript{10}, the school is indirectly managed by the Perbanas through the YPP\textsuperscript{11}. The school head is accountable and has to report his managerial conduct to the YPP as the representative of the owner. It is the YPP that deals with the daily supervision of the school’s management including its financial management. The YPP in the end has to report its performance to the Perbanas, the owner of the school. The management of the YPP is chosen from the representatives of the Perbanas’ members through its congress for three year periods.

As stated in the Government Regulation PP No. 3/1988, job descriptions, functions and working mechanism of management conducted by private institutions are determined by top management of the school itself by considering the guidance issued by Minister of Education and Culture the Government of Republic of Indonesia.\textsuperscript{12} The regulation was afterward revoked by the Government Regulation PP No. 30/1990. Under the regulation PP No. 30/1990, all of the issues were mentioned in detail. Yet,

\begin{flushright}
\textsuperscript{10} Perbanas is an association of national private banks established in 27 May 1952 in Yogyakarta. As a result of easing restrictions on the establishment of new banks in 1988 by the government, it had ever had 166 members of private banks. Due to the financial crisis faced by the Indonesia’s economy since 1997, a lot of the private banks had gone bankrupt or merged with other banks. Its members accordingly had fallen from 166 to 78 banks recently.

\textsuperscript{11} Committee members of the YPP were appointed by the Perbanas’ congress from its banking members. Its elected members comprised of banking executives and banking owners for a period of three years.

\textsuperscript{12} Prior 1988, there was no regulation concerning this matter issued by the government. Accordingly, the issue was left to the private institutions themselves. The regulation PP No. 3/1988 itself unfortunately was subject to many interpretations and gave much power to the management of the school over others to determine the course/direction of the institution.
\end{flushright}
there were no fundamental differences between the new regulation and its predecessor in giving almost absolute power to the school head.

Within the PBS Jakarta, as previously explained, the school’s management consisted of the school head assisted by three vice-heads: Academic Affairs, General Administrative Affairs, and Student Affairs. TS dominated all managerial conduct within the school over the people who held the managerial positions. He determined who would get what within the institution. He appointed and replaced all managerial staff including heads of departments\(^\text{13}\).

After giving up his position as the school head, his domination over the school continued through the YPP by exercising his position as secretary and executive officer. All heads after him\(^\text{14}\) were always dependent on his blessing to get financial support from the YPP. Hence, the real power holder was unchanged, even though he was not head of the school any longer. In fact, all heads of the school who replaced him were his trusted people and his older brother.

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\(^{13}\) Since 1990 after the enactment of the Government Regulation PP No. 30/1990, head of department was appointed for the period of three year. However, within the PBS Jakarta, the head of the department could be replaced any time depended on TS’ will as it was always happened in the past. This position made them unlikely to be independent members in the Senate of the school. As a matter of fact, they were sungkan (embarrassed reverence) to say differently from the head of the school.

\(^{14}\) Due to the demand of the government regulation, TS handed over his position as head of the school in January 1993 to his trusted staff Anton Warsito. Because Anton Warsito turned to challenge TS’ power, TS took the position back and he acted as an interim head from February 1994 to August 1995. From August to October 1995, the position was given to Ign. Mardjono, one of his trusted staff as a temporary head. His older brother S was then appointed by him as head of the school for one period from October 1995 to 1999. He completed his job and resigned as head of the school in 1999. Mounting pressures from students and staff toward managerial reform had ended the long period of TS’s domination at the same time in 1999.
Another body within the school that had a strategic position was the Senate of the school that functions as a normative body and as the highest representative within the institution. It was headed by the school head. The Senate had been formed by the PBS Jakarta prior the 1990 when it was mandated by the government through the Government Regulation PP No. 30/1990. The existence of the Senate was important for TS in order to get legitimacy in front of academic staff, the owners as well as Coordinator for Private Higher Education Institution – the Directorate of Higher Education - the Department of Education and Culture the Republic of Indonesia, the only external body that has the authority to supervise and to award accreditation to private higher educations.

Members of the Senate came from many elements within the school: all academic staff that held the highest academic rank (professors), head and vice-heads of the school, heads of the departments, and academic staff representatives that were elected from the academic staff excluding professors. The number of the representatives was determined by the head of the school. In fact, he always maintained the composition of the members not to jeopardize his position.

The Senate was officially headed by the school head. Given the composition of members that it was dominated by the head’s loyalists and his position as the head of the body, he easily orchestrated all decisions issued for his own interests. As a result,

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15 The Government Regulation PP No. 30/1990 article 64.3 stated that a school’ Senate was headed by the school head. This regulation accordingly gave legitimacy to the head of the PBS Jakarta and TS to hold an absolute power over the institution.
all the head’s intentions including school’s annual budget proposal and managerial accountability were normally rubber-stamped by The Senate of the PBS Jakarta.

Among the Senate’s essential duties are:16

1. To formulate academic policies and the school’s development
2. To formulate policies on evaluation of academic performance and development of staff
3. To formulate norms and standards for school’s management
4. To approve budget for revenues and expenditures proposed by the management of the school
5. To evaluate the accountability of the school’s management in conducting the policies determined by the Senate
6. To formulate rules and regulation regarding the implementation of academic freedom of expression
7. To give advice to the owner of the school regarding the appointment of head of the school and promotion of academic staff to become professor
8. To ensure that the norms for the staff and academic society within the school prevail.

Within the PBS Jakarta, the Senate then lost its role as the highest representative body. Its function had turned into the guardian of the status-quo. The school head was too powerful to be dictated to by others; beside he had successfully concentrated power on himself. This determined the culture of the organization was closely associated with the culture of TS himself due to the role that he had contributed a lot to the school. Organizational imprinting as a process by which an organization “tends to maintain certain practices adopted at the time that the organization was founded” or, in this case, was developed (Carpenter and Feroz, 2001, p. 566), was taking place. The PBS Jakarta was identical to TS himself as will be discussed in the following sub-chapter.

16 The Government Regulation PP No. 30/ 1990 article 64.2
6. Adopting Javanese Culture

6.1. Concept of Rukun and Musyawarah - Mufakat

“The reason that culture is important is because top management can directly influence culture through activities and symbols” (Daft, 1986, p. 486). In the PBS Jakarta, TS was very much inclined toward Javanese culture to which he belonged. The culture is preoccupied with the concepts of rukun (the maintenance of social harmony), decision making process through consensus, and monopoly of power by the ruler (Suseno, 1999, p. 218-220). In relation to the leadership issue that was associated with the top managerial position within an organization, TS, as a top manager, had adopted the culture into the PBS Jakarta as its organizational culture.

The concept of rukun implies harmonious social integration in the sense of obedience to superior (manut), kindness, avoidance of conflict, understanding of others, and empathy (Geertz, 1961; Koentjaraningrat, 1985). It is these values that make Javanese people tend to feel awkward toward their superior or someone whom they respect. They will always keep trying not to bother their superiors. Feeling of sungkan (embarrassed reverence) that is considered as the basic elements of human virtue grows within this kind of circumstance. Geertz (1961, p. 114) describes rukun as “basic social properties of self-control and avoidance of disapproval”.

The values mentioned above are reflected in daily activities within the contexts of family, workplace, schools, and even political organizations. The emphasis on social harmony has made the Javanese, according to Geertz (1961, p. 147), inexpressive since “emotional equilibrium, emotional stasis, is the highest worth, and on the
corresponding moral imperative to control one’s impulses, to keep them out of awareness or at least unexpressed, so as not to set up reverberating emotional responses in others”. For that reason, the Javanese always maintain that a decision has to be taken by *musyawarah* (friendly joint deliberation) in order to achieve *mufakat* (consensus).

Organizational culture inside the PBS Jakarta became obvious as people within the organization tended to maintain practices adopted since the time it was introduced. It dated back to 1974 when TS was gradually transmitting his own culture into the organization. The culture that was inspired by the Javanese culture had been deliberately adopted to be the PBS society’s consciousness. New entrants to the institution would almost certainly accept the culture not because it was rational design or decision but of its emphasis by (Scott, 1987a) and it was taken for granted as the way things were done as rituals and customs.

This process that is known as organizational imprinting, was taking place without any resistance due to the concentration of power with TS. There were many explanations that made this concentration of power possible. Historically, it was he who almost single handedly developed the school. Therefore, a feeling of *sungkan* among staff to challenge his power, as demanded by the Javanese values, gained momentum and he cleverly played these values. The Javanese culture therefore was used to cover up his interests and to control his subordinates.

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17 The culture however finally became the PBS Jakarta culture. It was positional rationality in the sense that the culture was politically constructed reality by the head of the school and TS as well as intersubjective rationality in the sense that the culture was socially constructed reality through socialization and social control (Jones, 1992).
Nico, for example, belongs to the Dayak tribe from Kalimantan Island. He, however, was deeply inspired by the Javanese culture as he described his feeling of sungkan to the head of the school by saying that “there was a strong belief among staff, including me, that subordinates should do what was asked by the head. It was bad-mannered to disobey the superior.” This situation was intensified by TS and his older brother S who often spoke in front of managerial staff meeting that both intervened directly into daily managerial conduct to ensure that the staff did “the right thing”.

To his trusted staff, the school head explicitly asked for their loyalty wherein he would guarantee the welfare of these sorts of subordinates. Sodikun described these staff as the head’s servants as they were ready to do every thing for the school head:

These kinds of subordinates had to be ready to serve the official as well as private activities of the head. Even they were involved in engineering the head’s personal activities to be transformed as these were official activities in order that the expenses needed could be charged to the institution. For example, the head’s personal traveling expenses, either domestic or international were always reported as official travel. The practices also covered the expenses needed for his sons and daughter to study overseas and were reported as sending academic staff to take further study overseas.

In return, these staff would always be involved in all activities that indeed would also provide additional income for those who were involved. And related to this issue, Jerry adds up:

Happy managers were those who eager to handle all kind of assignments and be loyal to the school head. These managers would never be dumped and would always be used as managers. The head were generous to this kind of managers. Those who opposed the school head, on the other hand, would likely turn out to be unhappy and apprehensive managers in which their position was always at stake to be replaced at any time.
Decision making by *musyawarah* and *mufakat* as demanded by the Javanese culture was in fact done in one-way approach in which TS was always ready to impose his ideas. He documented his idea into the RIP 1985-1995 that was discussed through and approved by the Senate. In every managerial staff meeting, he always gave a keynote speech that introduced his ideas to be discussed in the meeting. He would then ask all participants to discuss his ideas even though most staff would almost certainly highlight their support for his ideas. Criticism would almost certainly be delivered in very polite ways and using very polite words. Yet, he always happily incorporated new ideas that came up during the meeting in order to get support and to strengthen his power in front of critical staff.

### 6.2. Superior and Leader: Priyayi

Within this historical context, the feeling of *sungkan* among staff toward TS was growing as he was the most significant and senior figure within the school and accordingly had taken the role as a leader as well as manager. Respecting, relying on and trusting in the leader and superior is seen as etiquette in human relations especially within the *priyayi* – Javanese traditional legitimate elites or high-class society that comprised civil servants, intellectuals and aristocracy, in contrast with *wong cilik* or common people that consisted of Javanese peasants and the urban lower classes (Koentjaraningrat, 1957) - in order not to break the concept of *rukun* - harmonious social integration.

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18 In fact, all Senate’s members were his supporters as they were appointed by him following the way the President Suharto appointed members of the Indonesian parliament.

19 Despite this stratification, however, Javanese society is relatively open and socially mobile (Koentjaraningrat, 1985). The Javanese peasants and the urban lower classes may move upward to become white-collar government elites as a result of education, therefore they become *priyayi*. It seems
In the literature with a western point of view, Nicholls differentiates between managers and leaders by saying that:

Management can get things done through others by the traditional activities of planning, organizing, monitoring and controlling – without worrying too much what goes on inside people’s heads. Leadership, by contrast, is vitally concerned with what people are thinking and feeling and how they are to be linked to the environment to the entity and the job/ task (1987, p. 21).

Alvesson (2002, p. 100) argues that managers rely on formal position and working with bureaucratic processes while leaders “rely on their personal abilities, work with vision, agendas and coalition building and mainly through non-coercive means (that) affect people’s feelings and thinking”. Leaders, in contrast to managers, therefore, emerge as a result of the support and legitimacy from the followers.

Seen from this perspective, TS was a leader in the sense that he drew “attention to the consequences within and through cultural meanings informing the thoughts, feelings and actions” (Alvesson, 2002, p. 102) he provoked. He was also a manager in the sense that he always addressed straightforward and “taken-for-granted meanings” that lead to “predictable responses at a behavioural level” (Ibid, p. 102) especially when dealing with staff who did not rely on him for their position.

that the social mobilization through education had placed TS from a Javanese peasant family as becoming a priyayi.
Javanese *priyayi* were actually officials with or without noble origin, therefore this status group was not a hereditary social group. Under the colonial rule, however, this group had been treated as elite group with the capacity to exercise authority that member of lower classes lacked (Kartodirdjo, 1984, p. 183). In addition, Kartodirdjo explains that:

In assuming their role of authority, it was necessary to believe that they were essentially superior to the classes below them. Their position of authority belonged to them by virtue of who they were. It was assumed that a member of the elite had the capacity to exercise authority that a member of lower classes lacked. They preserved the distinction between themselves and the peasantry. … They had to ascribe their position to some cause, originating not on what they did but what they essentially were. … The peasant regarded himself as inferior in social status to the *priyayi* but felt neither frustrates nor humiliated because he believed that his function as a peasant was a useful and worthy element in the functioning of the society (1984, p. 184)

Under these circumstances, TS, as superior, had been seen by most staff especially by lower level staff, as *priyayi*. A lower staff member described him as a top manager, who cared so much to the ordinary people within the school:

As an ordinary person (*wong cilik*), I feel that TS was giving special attention and caring about the welfare of the people like me - lowest level staff. On the contrary, the current school head, I think, does not have any attention to the welfare of the ordinary people whatsoever. It has been more than 2 years after TS resigned from this school, our salary has not increased. Under TS, we always got a salary increase every year. He was always caring about our welfare and our safety. He, I think, was a noble man. Indeed, he knew very well the name of all staff from the top to the lowest levels.

His attention to the ordinary staff was shown by paying attention to the welfare and dignity of the staff in the forms of annual salary increases and other benefits. He was always calling them by their name. In the Javanese culture, there is a feeling of
important (dignity) among ordinary people that people who come from high status group as TS know their name. TS accordingly had maintained the safety, prosperity and dignity of the staff. In return, within the Javanese hierarchical philosophy, all of these efforts gave legitimacy to his power and leadership (Suseno, 1999), beside staff loyalty.

7. Other Contributing Factors

Staff recruitment mechanisms also contributed much to the concentration of power in the PBS Jakarta. Patterns of the recruitment could be divided into three complementary sources. First, to create an image of ethnic diversity, the recruitment was determined mostly based on the balance of ethnic groups existing in Indonesia. Consequently, most of the staff were of Javanese origin from Central Java in particular since the Javanese comprised of the majority of the Indonesian population. Second, in term of religious composition, he recruited most of the managerial staff from his minority religious group. Third, despite the two, he recruited a lot of his relatives into the school. These patterns, in a relatively traditional society as Indonesia, had created staff with enormous loyalty either voluntarily or involuntarily.

Management based on patron-client linkages therefore became a central feature of daily managerial practices inside the school. Formally, the managerial style adopted gave equal chances and treatments to all staff. However, practically, it applied differently. The management had promoted inequalities of status and power among staff by offering a congenial environment to ethnic, religious, and familial considerations along the lines of the school head. It was these three factors that deeply determined relationships between the school head as patron and the staff as clients.
To seek access to managerial positions, staff from outside the head’s groups had to develop alliances with him. As in Javanese culture that depicts power as the ability to transform disunity and heterogeneity into oneness (Anderson, 1972), TS stressed and shaped the school’s social diversities in order to reconcile the conflicting interests and demands. Therefore, it built an image to the staff that unity could only be enforced from above, in this case by TS with all of his positions. He depicted the Javanese in the same way as the New Order government treated the Javanese “as the ethnic core, while recruitment into the elite positions came, to some degree, to be conditional on ‘Javanization’” (Brown, 2001, p. 4).

His political connection, at the time, had created an atmosphere of anxiety among staff who “thought” differently. He was politically well connected since he was a nephew of a strong political aide to President Suharto. Through this nepotist relationship, he became a committee member of the ruling party that was Golkar party as head of the department of education of the party. At the time when the political systems was bureaucratic-authoritarian with a patrimonial relationship, the position was sending a compelling message to the staff about his political strength, beside showing how important he was as a member of the ruling elite seen from the perspective of Javanese culture.

8. Concluding Remarks

Given the Javanese culture adopted, it cannot be concluded that the PBS Jakarta’s organizational culture was unique due to the common themes that pervade the
culture and were adopted. As Martin et al. (1983) argue, similarity among stories that symbolize different cultures among organizations may be very revealing. In the case of the PBS Jakarta, the way TS dealt with the daily managerial practices was commonly practiced during the New Order government that took power, as mentioned in chapter one and was characterized as a bureaucratic-authoritarian regime inspired by the Javanese culture, military chain of command, and an enforced unified ideology of Pancasila to maintain economic development as its legitimacy.

Cultural transmission took place in a relatively unproblematic manner because the school head had full control over factors that affected the transmission such as recruitment, socialization and employee turnover. Modeling patterns of behaviour were intensified through employee interaction in order to transform the culture to new members. The aim was to maintain the culture that at last would protect the head domination and control inside the school.

This chapter demonstrates that the school head intentionally transmitted his Javanese cultural viewpoint to be the school’s culture in order to strengthen his domination in the school. Based on this cultural perception, he was able to exert and establish a paternalistic world view in the school as a powerful normative control. In accordance with this view, organizational routines and practices that took place in the school were directed to create the personal loyalty of the staff to the school head. Therefore, this chapter is important in providing cultural details concerning the success
of the school head in implementing his managerial strategies to build, exercise and maintain his ultimate power in the school that will be discussed in the following chapter.
Chapter Six

Perbanas Business School Jakarta: Building up Power

1. Introduction

In keeping with the cultural view adopted by this study, power is analyzed from the dynamic, sociopolitical conditions surrounding the reproduction and effects of culture within a knowledge-intensive setting (Robertson and Swan, 2003). It is the intention of this chapter to examine organizational routines and practices related to the mobilization of power within the PBS Jakarta. The practices related to the development of norms and patterns of knowledge centered on elitism in the hands of TS as the corporate identity that had become the school’s culture acted as a powerful normative control in the forms of high level of loyalty and commitment of staff toward him.

It was inevitable that under such circumstances, systems within an organization including control systems were directed to build up and maintain power among various organizational actors (see for example: Covaleski and Dirsmit, 1986; Abernethy and Chua, 1996). In the PBS Jakarta, political maneuvering to concentrate power in the hands of the school head was done through organizational structure and managerial hierarchy, power mobilization, exercising status groups based on religion and ethnicity, and creating paternalistic managerial style and familial relationship. This chapter specifically discusses the role of TS in building, exercising and preserving his power to gain absolute control to the school.
2. Concept of Power

Power has become the fundamental concept in social science in the sense that social dynamics are always related to power. The power itself basically “involves individuals trying to change the behavior of others” (Scott, et al, 1981, p. 132). Quoting from Robert A. Dahl, Hatch (1997, p. 282) maintains that “A has power over B to the extent that he can get B to do something that B would not otherwise do” that implies that power is a specific relationship between social actors “rather than residing within the actors themselves”. In a more neutral term, power can be defined as “a force that affects outcomes, while politics is power in action” (Hardy, 1996, p. 3).

Pfeffer (1992) mentions the relationship of power to politics by arguing that power involves an actor’s ability to influence behaviour and overcome resistance, therefore, it incorporates conflict and resistance and is politically motivated. As mentioned in the chapter three, power is always related to politics given that it is a force to affect events whereas politics is activities or behaviours needed to develop and use power in organizations.

Authority is power that has been legitimized within an organizational setting (Hatch., 1997, p. 284), culturally as well as politically (Scott, 1995, p. 46). Yet, it has to be realized that “authority is often inferred from symbols that powerful members of an organization acquire through political maneuvering” (Hatch, 1997, p. 285). Power, within this perspective, therefore, is exploitative as explored by many accounting researchers (see for example: Neimark and Tinker, 1986; Miller and O’Leary, 1987 and 1993).
Ezzamel *et al* (1997, p. 450), however, have different view as they describe the political role of accountants when “other bodies of managerial expertise” offer solutions for problems emerged in which the solutions have the capacity to displace the role of accounting. They found that the response from accountants “was not to dismiss the solutions but, rather, to show how accounting is critical for the effective definition and enactment of such alternative expertise” (*Ibid*, p. 450).

Taking Giddens’ (1984, p. 29) structuration framework that takes signification, legitimation and domination in the social structures into account, power does not necessarily involve conflict. Macintosh (1994) describes the three dimensions as follows. Signification gives meaning, interpretive scheme and discursive practices to be used by agents for communication and understanding. Legitimation provides shared values/norms and morality in the forms of mutual rights and moral obligations. It is domination that provides influence to define power relations within organizations.

Within the managerial accounting context, Macintosh and Scapens explain the interplay between agents and structure, as described by Giddens’ structuration theory, by saying that:

…the domination structure which comprises the rules and resources drawn upon in relations of power are closely linked to the significant and legitimation structures. Command over the management accounting process, for example, is a resource which can be used in the exercise of power in organizations. Drawing on the domination structure certain organizational participants hold others accountable for particular activities. Management accounting is a key element in the process of accountability. However, the notion of accountability in management accounting terms makes sense only in the context of the signification and legitimation involved in management accounting practices.
Organizational participants make sense of actions and events by drawing upon meanings embedded in management accounting concepts and theories. Furthermore, management accounting gives legitimacy to certain actions of organizational participants. (1990, p. 457)

To Giddens (1976, p. 112), power links to the pursuit of interest in which it will only relate to conflict when those interests of people in organizations do not coincide. Thus, “power does not necessarily imply conflict if the interests of different groups are shared” (Collier, 2001, p. 467). Employing Giddens’ perspective, Scapens and Roberts (1993, p. 3) assert that power as represented by accounting can be both an enabling and empowering device as well as “a means of achieving hierarchical control” that is consequently oppressive.

This is in line with the institutional theory adopted by this study in which power as represented by actors’ self-awareness and self-interest institutionally define the organizational fields (DiMaggio and Powell, 1983). The fields that represent environmental/institutional forces are overwhelmingly political that are adopted by organizations either voluntarily or forcefully\(^1\) in order to socially be judged legitimate. It is actors within organizations especially the powerful actors that determine and shape the structure by committing values and also interests into the organizations they involved. The adoption therefore is often more symbolic rather than real. It is the reason that decoupling within this context, therefore, plays an important role in maintaining formal organizational structures adopted.

\(^1\) For detail, see chapter three and seven.
3. Organizational Structure and Managerial Hierarchy

3.1. Formal vs. Informal Organizational Structure

The PBS Jakarta had been developing its organizational structure since its inception. It had been changed many times following the development of the school. Formally, the structure depicted delegation of authority and lines of responsibility within the organization of the school. Even though it was not mentioned in detail, the structure approximately described jobs assigned to every organizational unit. It was then up to head of the units to clarify, to delegate and distribute works and jobs among the units’ staff. In addition, the functional structure adopted made likely for the unit’s head and staff inside every unit to deal with and maneuver the tasks they had to handle that somehow could be classified as decentralization of managerial practices.

The formal organizational structure adopted by an organization, according to Thompson (1966, p. 51) refers to “the internal differentiation and patterning of relationships” in which organizations set limits and boundaries for responsibilities, resources control and other matters in order for its members to perform efficiently. The coverage of structure includes work roles allocation and administrative mechanisms in order to create a pattern of interrelated work activities and to allow the organizations conducting, coordinating and controlling its work activities. Keating (2000, p. 180 – 181) called this structure “the narrow sense of the traditional organizational chart, which focused exclusively on formal reporting relationships.”

However, the daily managerial conduct inside the PBS Jakarta did not always comply with its formal organizational structure. It was common that certain staff
bypassed their supervisors to deal directly with the school head, or vice-versa. The
initiation to do this was coming from the school head. Suwardi, a former manager of
Student and Alumni Affairs described his experience regarding this issue:

It was very often that my big boss, I mean the school head, bypassed my
authority by giving orders directly to my subordinates simply because
they were his trusted staff or because he might want to confirm my
performance through my subordinates. By doing this, they (my staff)
actually bypassed my authority and my supervisor’s authority (vice-head
of Students Affairs). I think my position as manager was merely to fill
the position provided without any real power whatsoever. Formally, I
was the manager. I never felt that my position had any impact on the
unit I supervised because many important things were done without my
approval and my key staff directly received the order from and reported
to the head of the school. In another words, the student affairs could still
be handled without the existence of the unit.

Contrary to the organizational structure adopted, almost all tasks were
conducted by using an ad-hoc committee structure. A staff member close to the school
head maintains that adhocracy was intentionally adopted by TS in order to generate
additional income for the staff regardless of the monthly salary they had already
received. To deal with the tasks assigned, every committee proposed a budget to cover
the expenses needed. Included in the budget was an honorarium for the staff involved.
The higher the position of a staff member within the committee, the higher was the
honorarium. The total honorarium received by a staff member was frequently equal to
or even higher than his/her monthly salary.

However, if the committee did not involve staff from other units, the
honorarium was seldom included in the budget. It was disguised by creating a higher
budget than actually needed. Acong explains how he created an honorarium for himself
and his staff by marking up the budget’s figures in order to explicitly include the
honorarium in the budget which otherwise would certainly lead to it being rejected. Therefore, in Acong’s point of view, the school head preferred his subordinates to cheat the budget to cover the honorarium rather than explicitly mention it.

Consequently, the organizational units supervisors were not directly accountable for the tasks assigned as described in the formal organizational structure whilst they received managerial allowances. Responsibility was directed by the ad-hoc committee members to the school head. The intervention of the school head caused frustrations among many talented and qualified managers. On the contrary, this boosted contentment and confidence among incompetent managers who were commonly seen by their subordinates as privileged and opportunistic people. At the end, this situation made the supervisors lose their credibility in front of subordinates. Thus, the boundary of management did not rest with the formal organization structure but on the committees, albeit, at the end, all the activities were reported according to the units’ job descriptions for annual reporting purposes.

To prevent the problem of opposition from a small number of talented and qualified managers and staff, TS tended to treat them differently from others. Those who were independent, talented and accordingly courageous in challenging him were given opportunities to develop and carry out their ideas providing these would not challenge and undermine his power. Former secretary of the Research Centre and Community Development, Jerry states:

2 Some of them chose to resign from their managerial positions. For instance, Sugiyono and Acong as head and secretary of the Department of Management resigned from their positions after TS decided to choose his older brother S as his successor even though, at the time, both were TS’ men. Since that time, some of those who chose to stay as managers built an oppositional front from inside. The opposition movement to topple TS and S domination was getting stronger than before.
I felt that TS as the school head gave me freedom to create and make real my ideas to develop the unit I was responsible for. I had created many research opportunities for academic staff as well as activities related to seminars, workshops, trainings and community developments. As a result, the unit at the time also contributed a large amount of money to the school. When my popularity was rapidly growing as the activities were widely covered by mass media (printed and electronic media) and it was threatening the head of the school’s power and popularity, I was replaced from my position and removed to the academic affairs unit as manager. The new post was seen by staff as promotion as this was what TS said to all staff. However, to me, it was actually a demotion because the new position was mainly an administrative job that did not provide the possibility for me to be well-known outside the school. The new position indeed would not jeopardize the power of the head of the school.

This did not happen, however, to Acong, for instance, who mentioned that the school head always gave him freedom to manage his unit. Because he never threatened the authority of the head, he had no problem with his career.³

The formal structure adopted was not entirely implemented in daily managerial practices. In contrast, the managerial practices were dominated by an informal chain of command that was inspired by clientele relationships between staff and the school head. Accordingly, the formal structure could not be viewed as rational instruments to aid task performance. Borrowing Morgan’s (1997, p. 176) idea, it was used as “political instruments” in which the structure that related to centralization and decentralization designs “entail hidden agendas” in order to maintain the school head’s concentration of power and control.

This situation created an ambiguous form of decentralization in which all activities that were supposed to be conducted by formal organizational units that were

³ However, he finally chose to resign from his last position as secretary of the Department of Management after he opposed TS’s decision to appoint his older brother S as head of the school.
entitled to execute job descriptions assigned were in fact taken over by ad-hoc committees formed by the school head. Thus, although units’ managers were formally held accountable for their performance, as mentioned in their annual activities report, they were relatively powerless as a result of these practices. This is similar to Scapens and Roberts’ (1993) study of a large UK-based multinational company in which the company’s introduction to a multidivisional organizational form was not followed by decentralizing many essential functions so that it was still essentially centrally controlled and the units the company formed were oriented merely to production organization.

3.2. Staff Appointment and Evaluation

The school developed a mechanism and criteria for staff evaluation by using a standard form of evaluation. Once a year, the form had to be filled out by staff together with their direct supervisor to be submitted to the Human Resource Development (HRD) unit. From there, the forms collected were processed and the result was submitted to the school head to be used for performance evaluation. Despite its purposeful intention, the form was not clearly useful since, in practice, personal relations and staff attendance were more important than on the staff achievements in doing their job.

The evaluation process accordingly became ceremonial. It was almost certain that most supervisors gave higher points to their subordinates. Arda Lubis, an ex head of the Department of Accountancy talked about his reason in giving high evaluation scores to subordinates:

Every time, I had to fill evaluation forms for my subordinates, I always gave them high scores. Otherwise, the institution would postpone their
annual salary increase. I did not want to be the one who made my subordinates and their families suffer no matter how their actual performance was. The fact that the school head always gave special attention to his cronies, I believe that he seldom used the evaluation I had done for promotion consideration except for annual salary increase consideration. Thus, I believed that what I had done was acceptable and justifiable.

This practice was in fact reflecting a paternalistic relation within the Javanese culture adopted when leaders function as channels through which wealth is distributed. There are not likely to be complaints of corruption to the extent that wealth is recycled outwards and downwards (Strange, 1989, p. 129). In Javanese terms, a leader is morally corrupt when he/she become “personally wealthy without channeling benefits to followers” – an action that is called pamrih (narrow self interest) as the greatest threat to the leader’s legitimacy (Ibid, p. 129).

The Javanese concept of relationship that has been adopting within modern Indonesia, especially during the Suharto regime, is also known as bapakism - a relationship involving a bapak or a father and his anak buah or children. “The bapak has to assume extensive responsibilities for his anak buah, and they in turn owe him the incalculable debt of hutang budi,” a form of indebtedness with which they will struggle incessantly to repay but which continues to endure even into the next generation (Pye, 1985, p. 117). Like President Suharto, TS, however, had frequently violated this rule by ousting from his circle, anak buahs that “had grown too powerful by becoming major bapaks in their own right” (Ibid, p. 117) which would threaten his power.

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4 This value, in fact, is not the monopoly of the Javanese culture, but it also exists in other local cultures within Indonesian society. This might be the reason that it was successfully adopted by the New Order government and widely accepted by Indonesian society.
The relationship based on bapakism was also instigated by the school’s heavy emphasis on daily attendance in punishing and rewarding staff. A warning letter would be issued by the HRD unit for staff that came late to the office more than three days in a month and their transportation allowance would not be paid for the days they were late. Those who got the letter three times respectively within three months would be suspended from coming to the office for a month. A good staff member, therefore, was one who never came late to and was never absent from the office. This daily ritual created an absurdity when all staff were in hurry going to the office every morning not because they were busy but simply because they did not want to be late and get punished.

The necessity of attendance in the office for all staff from seven in the morning until three o’clock in the afternoon fulfilled at least two functions. Culturally, it demonstrated the importance of ritual in the form of daily attendance despite the differences in work characteristics between academic and administrative staff. As a ceremony, it was intended to maintain the solidarity and relationship among staff and between the staff and the school head. Maintaining rukun – harmonious social integration – was the central theme of this practice. TS personally defended this policy for the reasons of creating and sustaining solidarity, obedience and equal treatment between administrative and academic staff.

Given the domination of TS inside the school, as explained in the previous chapter, it politically displayed his absolute authority in the school over the staff. Therefore, domination was transformed into a command with which the staff complied.
If this is the case, the practice more concerns a hegemonic promotion, an “insidious form of control that works by subsuming individual identity and inhibiting critical self-reflection and individual choice” (Robertson and Swan, 2003, p. 836) that serves the interest of the school head rather than promoting the value of rukun.

The importance of staff attendance was written in official document and articulated in the actions and speeches of TS. He always set an example to the staff by arriving at the office early in the morning. It was his daily routine activities to make an inspection of all units and the campus environment early in the morning to make sure that everything was in order. His knowledge of what happened during the day impressed staff about his seriousness and ability in supervising and controlling the daily activities of the school. This caused most staff to feel disinclined to engage in inappropriate conduct and to come late to the office. They believed that TS knew all that was happened in the office from his daily inspection and from his trusted staff.

Since there were no clear criteria for staff evaluation, no one except the school head knew the criteria used in appointing staff to managerial positions within the school. And there were shared understandings and meanings in the psychological characteristics of staff and the school’s community that managerial appointments were very much influenced by kinship and patronage considerations. It could be seen from the fact that many inept staff got promotion because they had a close relationship with the school head. On the other hand, many capable staff never got promoted because they were critical or had no special relationship with the head.
There was only the school head (and occasionally after negotiating with his older brother S) who determined and knew the criteria and qualifications to appoint and fire managerial staff. It was also commonly occurred that clerical staff were transferred to other units without consultation with the units’ supervisors. He could do that at any time he wanted since he indeed held absolute power as has been described in chapter five. This was always formally announced during the whole staff monthly meeting. Many days before the meeting, rumours usually were spread about the likelihood of a managerial reshuffle in the near future. Thus, the announcement was directed to demonstrate and construct a symbolic meaning to all staff that he held the decisive power and determined the destiny of all staff.

Edi Yuwono, a former vice-head for Student Affairs clearly mentions that the school had no formal criteria for managerial performance evaluation. He said that “good or bad staff were mostly judged from the perspective of the school head”. Above all, a personal approach to the head was very important in order to be judged a good manager, as was emphasized by Endang who had held various managerial positions since 1985. Jerry shared similar experiences that trust-worthy criteria were dominant; as he says:

The school head usually got information from his people who were impressed with my achievements. He also actively sought information about my performance from his trusted staff. Indeed, I think, he did this to collect a second opinion to judge my performance. However, the most dominant factor was, in my experience, the personal approach to the head. He would always judge our performance from our loyalty and from our ability not to undermine his power.

Given the importance of personal relationships, the organizational chart that captured formal authority and represented the official system of accountability most
likely functioned as symbolic rationality in front of staff and other stakeholders. Informal authority that can be defined as influences by an individual or groups of individuals on organization decisions and activities without being sanctioned by the formal authority (Alexander and Morlock, 2000) dominated the managerial practices at the time. This was done by TS and was supported by staff that had the ability and willingness to approach him personally.

There were two kinds of staff who supported the practices. Those who were recruited mostly based on nepotism and religious considerations and those who were looking for managerial positions without sufficient ability to do so. Endang adds that “these kind of subordinates felt that they had been helped by TS, and it was their duties to do all what TS’ asked”. Thus, the concept of *hutang budi* was deeply affecting the feelings of the staff. For instance, Tony⁵ revealed that he was recruited as an academic staff member and given a scholarship⁶ by the PBS Jakarta simply because he was a friend of TS’ son while he was doing a doctoral program in the USA. Due to his reluctance to support all of TS’s conduct, he was forced to become an opponent and he was fired from his position as a team member on the committee involved in preparing to establish Postgraduate Studies.

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⁵ Even though he realized his appointment was part of the nepotism built by TS, Tony finally disagreed with the way TS managed the school for not being transparent. He was forced to become an opponent. Currently, he is the head of the PBS Jakarta for the period of December 2003 to December 2007.

⁶ There was no formal requirement to be eligible to get scholarships from the PBS Jakarta. However, at the time when many academic staff were waiting to get scholarships from the PBS Jakarta for years, Tony as a new staff suddenly was granted a scholarship for his doctoral study which fostered staff awareness toward TS’s discriminative actions.
4. Mobilization of Power

As mentioned in chapter three, this study will use a framework that is developed by Hardy (1996) to explore the mobilization of power within the PBS Jakarta in order that the head of the school build and preserve his domination over the institution. Unlike mainstream management theory that focuses solely on mobilization of resource dependencies, mobilization of power also involves processes and meaning as explained by this model. It is thus appropriate to the interpretivism adopted by this study.

Mobilization of power within the school was achieved through various channels – resources, decision making and meaning. Power is important since it influences who gets what, when and how (Morgan, 1997, p. 170). TS had a very strong personality and clearly commanded respect from staff. To a certain degree he was a charismatic leader as his followers saw his leadership as uniquely endowed (Larsson and Ronnmark, 1996, p. 33). His charisma, borrowing the idea of Tourigny et al (2003, p. 1040), seemingly came from his success to rescue and radically alter conditions in the ailing school when he entered in 1974. Taking Pant’s (2001, p. 705) idea into account, this had shaped domination of the power that accrued in the hands of TS’s superior knowledge about the organizational strategic planning that all were kept in his mind and his ability in determining the allocation of resources to staff.

Inside the PBS Jakarta, the head of the school was exercising power to influence outcomes by deploying key resources on which all staff depended. The resources

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7 “Charisma is socially constructed and imbued with mysticism” that might be created by external observers, participants in an organization, and even press (Tourigny et al, 2003, p. 1039). In the case of the PBS Jakarta, the success of the school, his clients and the Javanese culture created, accelerated, romanticized and constructed a heroic image of TS as a charismatic leader.
included control of money, rewards and sanctions, political access and information. Modifying staff behaviour was achieved by using mostly either rewards or punishments. The approach was exercised by creating staff reliance on the way in which their performance was determined and evaluated. This condition in the end would strengthen his power in front of staff.

Managers who opposed the head would face many problems to get the money needed to carry out their programs. Concentration of power made possible the opportunity to have direct control to the money owned by the school. Often, unless the managers came and directly asked the school head for the money in person, they would never get the money needed. Once again, in this case, the personal approach became very an important factor in carrying out tasks. This had been used to create an image and indeed became an important message to all staff how powerful he was. The practices were also applied by S when he was in power.

To enforce behaviour modification in the PBS Jakarta, the school head had trusted staff that always reported daily information about all staff affairs regarding their jobs as well as other activities that might undermine his power. The information in fact provided knowledge about all key staff within the school in order to increases his power. He often reprimanded managerial staff for not doing the job properly whilst he was absent from the office by exercising such knowledge. This action that demonstrated his ability to control all staff conduct is in accordance with Foucault’s (1978) idea that power and knowledge are closely interwoven in which power generates knowledge and in the end the knowledge will boost power.
The decision making process inside the school was concentrated in one person - the school head. Only certain of the head’s trusted staff had access to the process on which other staff, who had no direct access, frequently relied. The head could cancel or bypass procedures and political routines to prevent the staff from directly being involved in decision making. Endang describes her experience while she was head of the Department of Management:

When I was in charge as head of the Department of Management, for example, TS suddenly asked me to send four academic staff to take further study even though actually the department had no such program at the time. Also, when he wanted to increase the salary of academic staff, he never discussed the matter with his staff, or at least with the HRD unit. He just simply said to me, the treasurer and one of his very trusted staff that he had decided to increase the salary by a certain percent and asked us to calculate the money needed. He covered his decision by asking the chosen staff to do the technical calculation.

Hardy (1996, p. 7 – 8) called this “non decision making” in which, in order to protect the status quo, a powerful actor, in this case TS, determines outcomes “from behind the scenes through the use of procedures and political routines”.

Furthermore, Hardy (1996, p. 8) argues that “power is often used to shape perceptions, cognitions and preferences so that individuals accept the status quo because they cannot imagine any alternatives”. This is related to management of meaning that according to Pettigrew (1979) is exercised to legitimize demands of certain interest groups and de-legitimize others. To be judged and seen legitimate and rational, symbolic actions, therefore, become necessary.
In the PBS Jakarta, management of meaning was used to cover up the interests of the school head. For instance, TS justified his practice of marking up every purchasing transaction with the reason that it was for the welfare of all staff by symbolically pooling some of the money under the Staff Welfare Account that was always distributed to staff annually. However, according to TS’s trusted staff, most of the money received was not pooled into that account and was directly deposited into TS’s personal account, the distribution of money to the staff symbolized that what he had done was for the welfare of all staff and it was legitimate.

Seen from the above explanation, TS was aware of exercising the mobilization of power over resources, decision making and meaning that he had to make his conduct acceptable and legitimate in front of the school community. An interesting aspect found from the school case was that the power mobilization undertaken by TS also rested for its legitimacy on the Javanese culture adopted. To avoid the complaint of corruption, for instance, he channeled the benefits to all staff. Therefore, it was difficult to accuse his actions of being *pamrih* (narrow self interest) that from the Javanese perspective would absolutely be a threat to his legitimacy.

5. Exercising Status Groups

Within Weberian sociology, status groups have been perceived as a source of identity and privilege and accordingly are seen “as competing with class as bases of solidarity and collective action” (Wright, 2000, p. 12). Unlike classes that are mostly driven by conflict of economic interests, the status groups are also influenced and determined by religion, language, ethnicity and even gender beside economic motives.
In the PBS Jakarta, TS was consciously building solidarity and collective actions based on religion that determined the status of staff in achieving their economic interests. Being adhered to the head’s religious group was seen by several staff as having a higher social estimation of honour that would provide easy access to managerial positions and wealth inside the school. A staff member close to the head from outside the head’s religious group mentions his awkwardness by saying:

I, sometimes, felt uncomfortable attended a meeting with the head and his inner circle that mostly adhered to the same religion as the head of the school. They explicitly valued them as smarter and socially higher in position than staff outside their religious group. As this view was quite often mentioned by the head of the school and others in front of me and other staff, I quite often endured a feeling of inferiority in front of them because I was from outside their group.

The school head orchestrated and created an impression that only those from his religious group possessed the capability to do the job properly. To build this image, he appointed inept staff from outside his group in order to show that they had been given chances but they failed. The objective was to close off opportunities for people from outside. This image was intentionally built as Endang explained that the school head always appointed an inept staff member from outside his group as the school’s vice-head. By doing this, he could avoid critics that accused him of being discriminative to other groups. He could simply give an answer that given such condition he had no choice except appointing people from his status group.

The practice was obviously directed to strengthen TS’s domination inside his group as well as to the management of the school in order to keep his position safe.

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8 As had been indicated in chapter five, from three vice-heads, TS always appointed one of them from outside his minority religious group.
Since the practice had placed the group’s members in a higher position compared to the others either economically or politically, there were growing perceptions among members of the group that any critique of TS was seen as a serious threat for the group as a whole. Most staff believed that TS’s removal from the school would jeopardize the benefits and privilege obtained by all his group’s members.

This was happened to Sugiyono, ex head of the Department of Management and one of the school head’s most brilliant and trusted staff members who turned against the school head. He was asked by most staff from his group to reconsider his decision to resist the school head. Despite the head’s summons that as the head’s cadre, he was supposed to protect the interests of the religious group to which both belonged – a claim that was denied by Sugiyono⁹ – he openly criticized and challenged the decision to appoint the head’s older brother S as the new head of the school.

For this reason, according to Sodikun, most staff from this religious group were reluctant to criticize TS’s managerial conduct. As a matter of fact, according to Endang, they were very loyal staff. This pattern of appointment, therefore, kept TS’s position safe because these staff depended on him. It also became an important part of the control system that the school head built.

Statistically, this claim was proven. In the 1992, for example, all the vice-heads of the school were from the head’s religious group. In total, from 40 top, middle and lower managerial positions provided, 27 positions were occupied by staff from the

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⁹ Sugiyono finally decided to resign from the school after S was formally declared as the new head of the school in October 1995.
Given the fact that the head’s religion comprised only 3% of the Indonesian population, this condition showed how the religious status group had been effectively used to close off others from managerial positions in the school. Formally, no such thing was used as a consideration in appointment of managerial staff. Informally, however, the practice had been institutionalized into the school’s managerial practices.

The common perception among staff outside the head’s group was that they would only be appointed into a strategic managerial position if there were no one available or capable to do so from inside the group.

I had been working for this institution since the 1985. When first I joined this school, there were no prescribed academic systems and procedures. I was then assigned by the head of the school to develop and set up the academic systems and procedures. Unfortunately, I was never been given a chance to be promoted to higher managerial positions. I believed that the head only used me because there was no one from his religious group capable of doing what I had done. (As narrated by a managerial staff member from outside the head’s religious group)

Thus, as in the case of the formal institutionalized racism by powerful whites dominant in America toward African-Americans (Hammond and Streeter, 1994), the practice had effectively defused divisiveness between various classes of the group against other groups. Furthermore, to prevent the rise of opposition from inside his group, the head intentionally created and maintained an impression about the imminent threat coming from other groups. He had successfully built the image as the guardian of the group’s domination within the school.

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10 See Appendix 1

11 Taken from CIA World Fact Book - Indonesia last updated on 18 December 2003
Ethnicity was another status group that was used to support the head’s position inside the school. The fact was that the majority of private bank members of the Perbanas were owned by Indonesians of Chinese descent; so too most of their top management. It was common practices in Indonesia that businessmen of Chinese descent that were politically vulnerable had special relationships with politicians, civilian or military officers in order to get “political protections and facilities such as cheap state credit, import monopolies, and other privileges in exchange for payments of various sorts, in cash or in kind” (Liddle, 1999, p. 51).

The school head, to be precise TS, was taking advantage of this situation. His position as a member of parliament (DPR) and People Consultative Assembly (MPR) as well as his position as a committee member of the New Order’s ruling party - Golkar party - had convinced committee members of Perbanas from the Indonesians of Chinese descent he provided the political protection they needed. This view was further strengthened by his familial connection to an army general\textsuperscript{12} that held an important political role within the New Order ruling party. His position as a commissioner of a private bank owned by an Indonesian family of Chinese descent and the trust given by the Perbanas as the owner of the school took place within the context of an ethnic relationship between an Indonesian of indigenous origin with his political influence and Indonesian businessmen of Chinese origin seeking political protection.

\textsuperscript{12} Apparently, his blood relation as a nephew to General Suhardiman had quickly boosted his political career. General Suhardiman was one of the Army Generals closest to Suharto (Elson, 2001, p. 194; Robison, 1986, p. 252).
6. Paternalistic Management

Padavic and Earnest argue that paternalism in the context of managerial control may refers to “(1) an exploitative power asymmetry, suffused at the social-psychological level with deference and loyalty grounded in a familial sentiment or to (2) the institutional forms within which this power asymmetry is exercised, such as company-subsidized community projects or housing” (1994, p. 390). Paternalism that relies on familial sentiment accordingly consists of authority, benevolence, and morality dimensions in which superiors and subordinates interact (Khatri and Tsang, 2003, p. 294). Authority refers to “superior’s personal authority, dominance and control over subordinates” by demonstrating personal favours and generosity and in response subordinates show their benevolence by giving personal loyalty and obedience to the superior (Ibid, p. 294).

However, unlike Weber who tends to view paternalism as monothematic and relies on familial power structures that are absolute and hegemonic (Padavic and Earnest, 1994, p. 391), this study takes the view that managerial strategies are not univocal. In other words, the paternalism adopted by the head of the PBS Jakarta was only a part of the strategies used. As previously explained, the hegemony of power was achieved through various strategies.

The words of orang yang dituakan or a respected old man which all staff should obey was always emphasized by TS and also his older brother S. This terminology that has apparently been taken and translated from the Javanese terminology sesepuh has an important role within Javanese especially and Indonesian people generally in creating a
family feeling within society and organizations. The *sesepuh* is perceived as a source of knowledge as well as morale that Indonesians in general usually call *guru* or teachers. For Indonesians, respecting a teacher is just below respect for their own parents. Hence, it is not surprising that Indonesians call their teacher *bapak* or *ibu guru*. \(^{13}\)

The concept of *paguyuban* introduced into the school (as indicated in chapter five) placed the head of the school as *sesepuh* of the *paguyuban* and this obviously strengthened his position in front of stakeholders. Consequently, his relationship with people inside the institution more reflected father–children rather than superior–subordinates relationships. This is because, albeit TS was not the owner of the school, his role in making the institution since the 1974, made people suppose that the PBS Jakarta was identical with him as he intentionally built that image.

To create and maintain the familial relation environment, many ceremonial activities directed to increase personal interaction among staff as well as among their families were institutionalized. For instance, a lunch was provided for all staff including the head and all vice-heads in the office canteen that could accommodate around 100 staff at once. This ritual symbolized the oneness of staff as family members of the school regardless of their rank and position in the managerial hierarchy. \(^{14}\) All ate together in the same place and the same menu provided by the school’s canteen.

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\(^{13}\) *Bapak* is father while *ibu* is mother

\(^{14}\) There were many complaints especially from academic staff about the variety of menu provided. Some of them demanded money instead of lunch. TS, however, rejected the demand for the reason of maintaining camaraderie as a big family within the *paguyuban* of the PBS Jakarta. Beside that reason, the other important reason was that the catering company which provided the lunch was owned by his wife.
demonstrating that despite the differences in their working position, they were a big family of the PBS Jakarta.

The important aspect that characterized a paternalistic community within the school was the personal relationship between staff and the school head. His capacity as a committee member of the YPP – owners’ representative - as well as part of the owners in his role as a commissioner of a private bank - a bank member of the Perbanas, made him the only person who held the authority to hire and fire staff. In this position, he often approached staff or retired staff offering jobs for their children when they reached working age to maintain the relationship and control over the staff.

Widiastuti, an academic staff member related her experience when she was dealing with TS regarding her reluctance to comply with the school’s regulations being applied to her case when she was getting a scholarship from another institution to take further study overseas:

I had been unfairly treated by the school when the management asked me to sign a contract to come back to and work for this school for nearly nine years soon after I finished my study overseas. This was unfair since I had never got the scholarship from this school. This regulation could only be applied to staff that got the scholarship from the school. I had not. But, I finally agreed with the school’s demand when I met TS personally and he told me that as a father, he would never intend to harm and make his daughter suffer. He successfully and deeply touched my emotion and I was crying at the time. That was the only reason that I signed the contract without any hesitation.

Lifelong security was given to staff that gave their loyalty to the head of the school. For some staff, for example, submission or near total dependence on the management of the school was regarded as the only way to safeguard their living since
the jobs were their whole life. A bitter comment was given by a low ranking staff member on the salary he received:

Basically I only received pocket money every payday because it was the only amount left after deducting my various debts including installment of my housing debt to the school. Fortunately, I was often involved in ad-hoc committees that gave me additional income. Furthermore, the school paid all my bills in case I and my family were hospitalized so that I did not need to be anxious.

This is similar to what happened in the Brede factory narrated by Nielsen (1994) that by submitting their freedom to him, the owner guaranteed lifelong security to the employees.

Another way of creating the benevolence-obedience relationship among staff to the head of the school was by recruiting staff based on kinship considerations; as what Ackers (1998) calls family employment through large kinship networks. Quite often the head of the school recruited sons or daughters of retired staff or part time academic staff or even pensioners of government officials that had political, business or religious relationships with him. It was unlikely that those who were recruited based on these connections would oppose the recruiter as they had been trapped into what the Indonesian called hutang budi as has been explained earlier in this chapter.

Familial relationship was another factor that contributed to the paternalistic management organization inside the school. Indonesians believe that “who are well off should be ready to share their good fortune” (Pye, 1985, p. 119) to their extended family, friends, or even neighbours. This belief has caused a problem in distinguishing between corruption and wealth distribution. The head’s conduct that brought a lot of his
family into the school was not regarded as misconduct by most staff since it was common practices within Indonesian society.

Given the above circumstances, the paternalistic behaviour was not entirely imposed by the superior towards his subordinates. Taking Pye’s (1985, p. 117) idea into account, it also involved anak buah or subordinates who are seeking out a bapak or father. This situation, in turn, will create a general perception among several staff, as mentioned by Steph Subaniya that “it was a must that subordinates should carry out what was asked by the head”. This was proven by the fact that many staff were willing to do the job related to the domestic matters of the school head even if it was directly asked by the head’s wife.

The behaviour accordingly was reciprocal. On the one hand, the head enjoyed the position of being treated as a father by staff. As a matter of fact, the head by design created an informal working mechanism in which staff depended on him personally. This was important to display the role of father as the ultimate authority within the family and the only person able to intervene in the problems faced by his children. On the other hand, the staff members were eager to serve the head in order to be seen as loyal subordinates. For many staff members, to be “the head’s servants”, to be named staff members that were pleased to do whatever was asked by the head of the school, according to Suwardi and Sodikun, demonstrated their closeness to the head.
7. Concluding Remarks

This study identifies four factors that contribute to the power building that was undertaken by the head of the PBS Jakarta throughout his involvement in the school. Beside his enormous contribution to the school since the 1974 that had convinced the owners to hand all power over him to run the institution, the strategies adopted, to mention the four influential factors, had contributed to his efforts to build the power.

By creating a formal organizational structure on the one hand, and managing to appoint and replace staff for managerial positions provided according to his criteria and will, the head of the school shaped staff dependence on him personally. The daily managerial practices demonstrated that managers were not holding real power within their managerial boundary rather that they were doing what the head asked them to do. To do otherwise was seen as a potential threat to the head’s authority and accordingly such manager would face imminent replacement.

Power mobilization through resources, decision making and meaning was another factor that greatly contributed to the power building within the school. First, it was common that the management stimulated staff by exercising a rewards and punishments approach and by exercising the resources to create staff loyalty. Secondly, decision making processes often existed without the involvement of the managers who had the power. They were only asked to sign and approve the decision that had been taken to symbolize the involvement of the relevant managers. Lastly, management of meaning was exercised to cover up the interests of the head.
Status group was another factor that was consciously used to exclude other groups from participating in the managerial processes inside the school. It was the school head who managed to control the school by placing staff from his religious group into important managerial positions. By creating a fearful situation of threat from the majority religious group, he had successfully kept the staff of his group united behind him. He got full support from these staff members as there was a common perception within the group’s members that critiques and disagreement with the head of the school were seen as threatening their privileged positions.

All of the practices were conducive to the creation of paternalistic management inside the school. As already described above, Indonesian society in general is enormously inclined to the paternalistic society. Instilling such values into the PBS Jakarta in that case was relatively easy given the strategies adopted that demanded staff loyalty to the head and the cultural values that exists within the society. It was common that the staff themselves either consciously or unconsciously supported the paternalistic style adopted in order to protect their positions as well as to get promoted by channeling to the school head personally.

What is the relevance of all the factors narrated to the organizational control system inside the organization? It is widely accepted that the control system is, among other thing, determined and influenced by the managerial style adopted. The role of accountants, according to Francis (1990), as an important part of the organizational control system, is to create accounting as a discursive practice in which they are personally involved (“their own moral agency and rhetorical role”) in producing and
creating accounting information that in the end will influence control systems practiced. This chapter is important in providing a setting explanation about the control system practiced inside the PBS Jakarta which will be detailed in chapter eight.
Chapter Seven

Perbanas Business School Jakarta:
Institutionalization of the New Order
Cultural and Political Values and Practices

1. Introduction

Habermas (1978) with his concept of “ideal speech situation” argues that legitimacy of social action can only be accomplished through social consensus in the absence of domination under the condition of unrestricted discussion, mutually of unimpaired self-representation and full complementation of normative expectations. Even though it is unlikely to hold in actual practice, Habermas (1979, p. 118) maintains that it is possible to manipulate the context and process of legitimation. This situation, however, in the end, will create legitimation crises in which the relationship as described in the ideal speech situation will break down (Habermas, 1976). Habermas’s recognition of the importance of legitimacy, for that reason, does not overtly display the notion to achieve it as shared norms through a mimetic process as claimed by the institutional theory (Broadbent, *et al.*, 2001, p. 570)

Symbolic legitimation that is directed “to anchor the legitimacy of everyday activities in a higher order society” (Richardson and Dowling, 1986, p. 93) may fit the situation. Weber’s (1947, p. 328) claims of legitimacy – rational, traditional, and charismatic – each rely on the concept of a higher order society that he describes as a world view that goes beyond the organization. To Weber, accordingly, legitimation is a matter of locating the actor in implementing authority within a preexisting symbolic
order. Within institutional theory, this issue has been extended to relate organizations to their environment in which the organizations need to maintain their structures, procedures, and practices in accordance with the shared norms and myths of their institutional environments (Meyer and Rowan, 1977).

This chapter addresses the process of institutionalization of the macro societal level of values and practices of the New Order government into the micro organizational level of the PBS Jakarta. Isomorphism, either forcefully or voluntarily, became inevitable due to the political environment created by the New Order government that dominated Indonesian society at the time along with its economic success in managing the country. It will be shown in this chapter how the management of the school intentionally and inevitably copied the cultural and political values and practices of the government for the reasons that it was in line with the interests of the head of the school and to conform to the governmental pressures.

2. Domination of the New Order Government over Indonesian Society

As discussed in the first chapter, the New Order government was relying on four pillars. The first three pillars namely military, Pancasila ideology and Javanese culture were directed to maintain political stability and in order to achieve the fourth pillar of economic development. It was those pillars that shaped the government domination over society. It had become the hallmark of Suharto’s New Order that state power had been totally successful in extending its power to all corners of society (Vatikiotis, 1994, p. 96). “State power is exercised both through patronage and repression” by employing its economic and military capabilities (Uhlin (1997, p. 42). The government distributed
foreign and *cukong*\(^1\) capital to military bureaucrats and rural elites in order “to buy the loyalty of the potential dissidents”, while other dissidents were often brutally repressed by the military power (*Ibid*, p. 42).

“Order, fostering stability, generating growth and development” were the slogan of the Suharto regime for years (Vatikiotis, 1994, p. 33). In fact, it is its economic progress that, in part, had basically formed the backbone of the New Order legitimacy (Uhlin, 1997, p. 55; see also Vatikiotis, 1994). The legitimacy was attained as Suharto had successfully managed his promise to deliver better lives for most Indonesian. This claim was supported by the World Bank’s (1993) report that recognized Indonesia under the New Order as a high performing economy in East-Asian that had significantly improved Indonesians’ standards of living. This is the reason that the order had always been able “to compare its success favorably with economic wreckage under Sukarno” (Ramage, 1995, p. 39), Indonesia’s first president who had been perceived as managerially incompetent in handling the economic issues and ended his tenure with Indonesia on the brink of collapse.

Therefore, Suharto’s political legitimacy rested on his ability to maintain political - social stability and to generate high economic growth. As always emphasized by Suharto on every occasion and which was widely publicized, political stability was the requirement needed for the government to build the economy. It was eventually the economic success represented by widely shared increasing standard of living every year.

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\(^1\) The word of *cukong* refers to Indonesian-Chinese capitalists that have close relations to the political and military elites. The elite give political protection and facilities, and in return the *cukongs* pay various financial support or kind to the elite.
for the majority of Indonesians that made Suharto’s claim to political legitimacy more easily accepted by most of the Indonesian population.

2.1 President Suharto as a Central Figure

As a general in a regime dominated by the military, Suharto benefited from the full support of the military until his resignation on 21 May 1998. According to Liddle (1999), it was Suharto who built and personally controlled the political institutions of the New Order regime – the bureaucracy and armed forces; the submissive parliament (DPR) and People’s Consultative Assembly (MPR); the cycle of general elections dominated by Golkar ruling party; the state’s control over political parties and social organizations; limited press freedom; interpretations of Pancasila democracy and armed forces’ dwifungsi to justify the use of coercive measures if necessary.

This view is supported by Mackie and MacIntyre who explicitly describe the domination of Suharto’s strong influence on the New Order government by saying that:

Suharto’s own political and administrative style and his central Javanese background have strongly influenced the highly-centralized processes of government that have evolved since 1966. His personality was reflected in the sensible pragmatic planning mechanisms and economic strategies adopted, as well as in the blatant corruption and repression of opposition or dissent that he has tolerated or encouraged. His hand can be seen, too, in the form taken by the nebulous ideology of Pancasila and the concept of ‘Pancasila democracy’, now invoked so commonly as the epitome of Indonesia’s distinctiveness and traditional values… In both its achievements and its shortcomings, the New Order has been shaped by Suharto’s personal qualities… (1994, p. 45).

Liddle (1992, p. 68) asserts the similarity between the Indonesian military with the Soviet communist party wherein Suharto was its general secretary. There is a
difference between the two, however. The former Soviet Union was built on a powerful party whereas the New Order Indonesia rested with Suharto and his clients (Uhlin, 1997, p. 43) in which the Golkar party was used to symbolize that the regime was a democratically elected regime. A very strong presidency characterized the New Order regime’s structure “with a military surveillance system on national, regional and local levels” (Uhlin, 1997, p. 43) became the guardian of the regime.

An authority relationship based on personal loyalty to the leader became the dominant mode of the New Order cultural values and practices and Rosser (2002, p. 19) calls this practices the neo-patrimonial\(^2\) state model. Political cultures therefore were strongly biased towards patron-client relationships. The authority figure was enormously centered on President Suharto who in his long years of rule monopolized power and became the only functioning political institution in Indonesia (Witoelar 2001, p. 6). As a result, “all key political appointments including those to the cabinet, the senior ranks of the military and the top levels of the judiciary” were created by and depended on Suharto (Rosser, 2002, p. 15-16; see also Mackie and MacIntyre, 1994, p. 19).

The Indonesian pattern of superior-subordinate that ascribes to paternalistic ties was also practiced by the New Order government under Suharto in which his conduct had been equally tied to the patron-client ideal. However, in contrast to Sukarno, the first Indonesia’s President with his flamboyant all-knowing attitude, “Suharto has

\(^2\) The term of patrimonial is introduced by Max Weber that refers to bureaucratic structures based on traditional forms of authority in which informal rules, appointment on the basis of personal connections and corruptions are predominant over legal rational of authority in the forms of “clear and transparent rules, appointment and promotion on the basis of merit and fixed salaries” (Rosser, 2002, p. 19).
exploited the traditional patron-client model to legitimize divisions of authority based on technical specialization” that gave scope and place to “Western-trained technocrats, who, as his clients, carefully treat him as their deserving patron” (Pye, 1985, p. 119).

Despite the rationality of the Western-trained technocrats as government policy makers, it was the leadership of Suharto that determined the New Order economic policies based on his social and economic contexts, particularly “economic crisis, international economic forces, culture, and Indonesia’s patrimonial political system” (Rosser, 2002, p. 20). All these factors had an impact on the policy decided by the New Order only after these were filtered by “President Suharto’s perceptions of their nature and impacts, goals for himself and his society, and calculations of how best to achieve his goals” (Liddle, 1991, p. 404 as quoted by Rosser, 2002, p. 20). Thus, at the same time, he was relatively autonomous in this context.

The patrimonial characteristic of the New Order emerged after 1973-1974 when oil prices began to increase rapidly, and there were, therefore, enormously increased revenues to the government. Oil revenues were the main source of finance for the rapid infrastructural development of the 1970s and early 1980s (Vatikiotis, 1994, p. 35; Habir, 1999, p. 177-179)\(^3\). The oil revenues meant that the government had an unparalleled capability to award patronage upon its supporters and to deny access to lucrative financial resources, contracts or licenses to its opponents (Crouch, 1979 as narrated by Mackie and MacIntyre, 1994, p. 14) since the state’s revenues were almost entirely depended on the oil revenues. It was only after world oil prices fell in the mid

\(^3\)In 1970, oil and gas accounted for 37 per cent of total export revenue and steadily increased to become 82 per cent in 1981 (Vatikiotis, 1994, p. 35).
1980s that the government began a “wide ranging program of structural reform” aimed at increasing the state’s non-oil revenues in the forms of currency devaluations, taxation and banking reforms, and a series of measures to improve incentives for exporters (Booth, 1999, p. 112).

In the heated days of deregulation of the mid-1980s that continued until 1990s, Suharto’s treatment of his children by raising them as “patronage-minded businesspeople” known as pengusaha fasilitas (Habir, 1999, p. 179) was “all of a piece with his distinctively styled business dealings with those close to him” (Elson, 2001, p. 250) in the same way as it was done with many Indonesian businessmen of Chinese descent close to him. The period had boosted the role of giant conglomerates to deepen and broaden the national economy (Habir, 1999) dominated by Indonesian Chinese. This situation, however, did not erode the capacity of Suharto to channel monies to those whose support he needed through Pertamina – the state’s oil company and his personal financial power that was generated from businesses that were channeled and run under foundations he established (Elson, 2001, p. 251-252).

2.2 Appropriation of the State by Its Officials

Another feature of the New Order government, according to Robison (1986, p. 107) was bureaucrats’ control over the state – “politico-bureaucrats” in the form of blending between political and bureaucratic power (Rosser, 2002, p. 16) as all the government bureaucrats/civil servants were enforced to incorporate into the ruling party of Golkar. Because of a lack of any consistently effective rule of law, the bureaucrats were able to sell access to government facilities to the society to enrich themselves and their
families and to reward political supporters and co-opt opponents by using resources that were accumulated from the practices (Ibid, p. 16).

Active and retired military officials had become the most powerful politico-bureaucrats during the New Order period (Rosser, 2002, p. 16). The Armed Forces doctrine of dwifungsí had legitimized the placement of military officials integrated into senior positions within Indonesian bureaucracy, important ministerial positions and parliamentary members and state enterprises. The doctrine itself was entrenched in the history of the Indonesian military that was formed by “popular spontaneity” to keep fighting Dutch forces in 1948/1949 when in reality “the civilian government had given itself up to the colonial authorities” and it had considerably rewarded the military with political influence, social status and material benefits (Sundhaussen, 1994, p. 275 -276).

Thus, politico-bureaucrats became “a cohesive and coherent socio-political force in their own right, with interests and power deriving from their position within the state apparatus” (Robison, 1986, p. 116). Almost all access to state facilities such as export and import licenses, forestry concessions, subsidized bank credits, government supply and construction contracts to private businesses had been widely sold by the politico-bureaucrats in exchange for material rewards (Rosser, 2002, p. 33). At the community level, people were always asked for money for all services they got from the state bureaucracy. This is the reason that the politico-bureaucrats eagerly defended the economic role of the state by arguing that it was important for promoting national economic development (Rosser, 2002, p. 33).
Since Indonesian Chinese dominated the private economic sectors, corruption within the government was also portrayed as “the collusion between Indonesian political leadership and Chinese business” (Robison, 1986, p. 160). The Chinese businesses, as represented by large conglomerates, had been the most loyal corporate clients to the politico-bureaucrats. They apparently preferred to promote these clients rather than indigenous business elites because this last category could possibly build up social constituencies threatening the government in a way that the Chinese could not, therefore, it was Suharto who by design “limited their number and hampered their activities” (Case, 2002, p. 42).

It was also Suharto who initiated the institutionalization of personal wealth through a network of charitable foundations on his and nation’s behalf. Through the network that encompassed the country’s most profitable enterprises, in which Suharto and his family held stakes and a share of profit (Vatikiotis, 1994, p. 51). The charitable foundations were also used to accumulate patronage resources in the form of donations that came from thankful business elites, levies from state banks, and taxes on everyday transactions, “then recycled them (the donations) through the enterprises of his family and friends, or dispersed them – with much fanfare – at the mass level to build clinics, orphanages, and mosques” (Case, 2002, p. 37). This practice was followed by military and civilian officers. The military officers were usually involved in business with the Chinese as protectors, whereas top civilian bureaucrats preferred to set up their own family businesses in order to get state contracts in which their children were installed as executives of the businesses.
Therefore, Indonesia’s increasing reliance on markets as a result of economic reform in the mid 1980s was proceeding hand in hand with the government’s capacity to regulate internal and external trade and give success to Suharto to eliminate political contenders and consolidated his political power. This condition gave rise “to a set of rent-seeking incentives which ultimately shaped the structure of regulation in the Indonesian economy” (Cassing, 2000, p. 163). As the decisions were formulated by “a small inner circle of policy advisors”, it promoted “rent-seeking schemes seeking the patronage of the President” (Ibid, p. 164). For instance, an environment was created to encourage foreign investment and was followed by requirements for investors to have local partners connected to Suharto (Manan, 1997 as paraphrased by Cassing, 2000, p. 164).

2.3. State Corporatism

Schmitter defines corporatism as:

(A) system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive hierarchically ordered and functionally differentiated categories recognizes or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports. (1974, p. 96)

In reality, Robison (1993, p. 45) argues that the New Order government under Suharto was “less concerned with interest representation than with state control and social discipline”. Within this context, corporatism was adopted as an instrument for political control by an authoritarian regime that is known as state corporatism.
The corporatist system adopted by the New Order was characterized by the state’s control and intervention in all political and social organizations. Golkar, for instance, was military sponsored, first formed in 1964 to become an umbrella organization for anti-communist forces (Suryadinata, 1998, p. 131; Vatikiotis, 1994, p. 94). It was then gradually transformed into a de-facto state political party by Suharto (Suryadinata, 1998, p. 131; Mackie and MacIntyre, 1994, p. 12) by incorporating “around an array of state-controlled organizations responsible for representing particular sectors of society” (MacIntyre, 2001, p. 4). For that reason, Golkar claimed to represent the so-called karyawan that refers to any people who are functioning and comprised of “groups of professionals and functionaries, civil servants, experts and technocrats, non-party masses and the armed forces” (Murtopo, 2003, p. 48). The emphasis on “functionalism”, according to Suryadinata (1998, p. 132) was directed to counter PKI’s stress on class consciousness that gained tremendous support from peasants and workers.

As part of the corporatist system built by the New Order regime and which was transformed into its election vehicle, Golkar incorporated interest groups into its networks (MacIntyre, 2001, p. 5; Uhlin, 1997, p. 42; Rosser, 2002, p. 17) and was heavily backed by government officials and the military institution. It was dominated by retired military officers and civil servants (Suryadinata, 1998, p. 132) as they dominated its executive boards from national to local levels (Liddle, 1999, p. 41).

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4 PKI was an Indonesian Communist Party that was banned by the New Order government because of its involvement into the 1965 coup d'état against the government.

5 President Suharto was Head of the Board of Supervisors’ Council of Golkar that had the power to determine political posts within the party and DPR (Suryadinata, 1989; Rosser, 2002, p. 16).
President Suharto held the ultimate power within this party as it was he who determined and endorsed the membership of its central board\(^6\) (Elson, 2001, p. 204).

In every general election, all public servants including elected village leaders were mobilized for the victory of *Golkar*\(^7\). With the full support both politically and financially from the military, the presidency and the state bureaucracy through its functional organization known as *Korpri (Korps Pegawai Republik Indonesia)*, *Golkar* had won an absolute majority in all elections held during the New Order period\(^8\). The practice demonstrated how the government strengthened the old tradition of bureaucratic dominance within society (Emmerson, 1976, p. 61).

The New Order government also controlled opposition parties by forcing them to merge into two artificially created parties in 1973 under the “party simplification” program - *PPP* that was made up of various Muslim parties and *PDI* as a fusion of nationalist and Christian parties (Mackie and MacIntyre, 1994, p. 13; Vatikiotis, 1994, p. 94; Suryadinata, 1998, p. 132-133). Under the concept of mono-loyalty introduced by the government, all civil servants were forced to join their functional organization *Korpri* as “one of the key component groups in *Golkar*” and were dissociated from and prohibited from joining other political parties – *PPP* and *PDI* (Mackie and MacIntyre, 1994, p. 12-13).

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\(^6\) All candidates for Member of Parliament (*DPR*) and People Consultative Assembly (*MPR*) had to be endorsed by President Suharto also.

\(^7\) All wives of the public servants were mobilized into an organization that was known as *Dharma Wanita* in order to support the *Golkar*.

\(^8\) *Golkar* won 62.80 percent of votes in 1971; 62.11 percent in 1977; 64.34 percent in 1982; 73.16 percent in 1987; 68.1 percent in 1992; and 74.51 percent in 1997 the last election conducted under the New Order regime (Suryadinata, 1999, p. 199).
Further intervention into political parties was evident in the introduction of a “political floating mass” concept⁹ that banned political parties from operating at the village level (Mackie and MacIntyre, 1994, p. 13; Vatikiotis, 1994, p. 94-95; Robison, 1993, p. 43) whereas at the same time all government officials from Jakarta into the village level were Golkar’s activists. The official reason behind the introduction the concept was to distract people in the rural areas from political and ideological conflict with the parties in order to support national development through “the development their own rural societies” (Murtopo, 2003, p. 47-48; see also Elson, 2001, p.190). Before the New Order came into power, rural people were divided along political and ideological interests so that they neglected the need for development (Ibid, p. 48). This concept gave an additional devastating blow to the PPP and PDI especially in country-sides as most of the Indonesian population lived in those areas.

The government further intervened into political and social organizations by forcing Pancasila as their sole ideological basis in 1985 (Robison, 1993, p. 44; Mackie and MacIntyre, 1994; Mody, 1987, p. 335; Vatikiotis, 1994, p. 95; Suryadinata, 1998, p. 39; MacIntyre, 1991, p. 28). For the political parties – PPP and PDI- the adoption of Pancasila as their sole ideology had made both parties weaker. Especially for the PPP as an Islamic party, without Islam, the party had no identity and accordingly it had to alter its basis of existence (Suryadinata, 1998, p. 40-41). The PPP, certainly, had to pay

⁹ The concept of “political floating mass”, according to Vatikiotis (1994, p. 94-95) was introduced by Christian Chinese students close to General Ali Murtopo, a military officer that managed the Special Operations Office known as Opsus and group of Army Strategic Command known as Kostrad surrounding Suharto in the early New Order for the joint interests of Christian and mainly Chinese minority and a military establishment fearful of Islamic political revival. In contrast, Elson (2001, p. 190) argues that the original idea was suggested by the Muslim student leader Nurcholis Madjid that was soon endorsed by General Widodo and then Ali Murtopo.
a tremendous price in the form of loss of its traditional basis – devout Muslims - as a result of this ideological change (Ibid, p. 41).

In line with the corporatist system adopted, “state surveillance of society” was intensive and present in almost all spheres of everyday life (Uhlin, 1997, p. 42-44). Various letters of recommendation and permits issued by military and civilian officials were among the forms of surveillance that were directed to control people’s activities. Screening procedures issued by the government were applied for those entering the military, civil services, political parties, the press, mayors, educators and other professions. The intention was to prevent those “with a history of detention for political reasons hav(ing) the fact denoted on their identity cards” (Vatikiotis, 1994, p. 107). Related to this issue, any gathering that involved more than five people needed a permit from the authorities.

Suharto believed, in accordance with his fundamentally state corporatist idea, that “the use of the public good was unacceptable only if the public interest, as he defined it, was thereby harmed” (Elson, 2001, p. 197). This seems to be the main reason that he was unwilling to take strong steps against high-level corruption within his government. Under the Suharto regime, for example, it was common practice within the military that officers conducted business on behalf of the government, the armed forces, and themselves all at the same time (Kingsbury, 2002, p. 291-292). The income derived from the businesses was used primarily to buy military equipments, to support the military staff, and to increase direct salaries.
For the purpose of political control, economic stability and growth, the labour movement was tightly controlled (Hull and Jones, 1994, p.160). Independent labour organizations were hindered by imposing the All-Indonesian Workers Federation (FBSI - Federasi Buruh Seluruh Indonesia) as the sole worker representative organization in 1973. It was then replaced with an even more centralized organization in the mid 1980s, the All-Indonesian Worker Union (SPSI – Serikat Pekerja Seluruh Indonesia) with the Minister of Manpower as head of the union’s advisory board, to ensure that all labour activity was co-opted (Vatikiotis, 1994, p. 111). This, of course, made formation of independent labour unions illegal and subject to be banned by the government.

To maintain industrial order, the organization was backed by an ideological legitimacy that was introduced by the government for state intervention into industrial disputes that involved labour - a concept of Pancasila Industrial Relations. Based on the concept, the government condemned all strike activities for the reasons of contravening “the principle of harmonious, family like, state-capital-labour relations” (Hadiz, 1994, p. 192). The government intervention included the use of force by involving the military and police in industrial relations process (Hull and Jones, 1994, p. 160).

3. The New Order and the Culture of Corruption

Corruption is commonly defined as the abuse of public power for private benefits (Sandholtz and Koetzle, 2000, p. 32; Tanzi, 1999, p. 4). It can be in the forms of an illegal payment given to public representatives to acquire a benefit that may or may not be deserved, or abuse of public offices for private gains (Li, et.al, 2000, p. 155).
Chapter 7 – PBS Jakarta: Institutionalization of the New Order Cultural and Political Values and Practices

Despite the difficulty of measuring corruption in which it is culturally contextual\(^\text{10}\) so that it “predisposes people to view corruption as acceptable practice”, corruption will be measured differently as people in different cultural settings respond to corrupt political practices (Anderson and Tverdova, 2003, p. 93). The corruption discussed in this section fits the formula designed by Klitgaard (1988, p. 75) that \(\text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Accountability}\).

The nature of the New Order regime that was centralized in the hands of President Suharto had opened up the domination of the politico-bureaucrats within the state and state corporatism. All of these had weakened the role of the society in controlling government conduct and the controlling mechanism inside the state and government. The most damaging effect of these situations was the rise of massive corruption practices within the government and state bureaucracy. Corruption had been institutionalized and incorporated inside the state and government bureaucracy as a result of the political values and practices developed and adopted. Representing patron-client system, “elites in the central government depended upon allowing the officials under them to exploit their offices to secure their loyalty and support” by peddling whatever influence they were able to offer for a decent income (Renoe, 2002, p. 107).

Therefore, despite its occasional anti-corruption drives, corruption became a fact of everyday life of the New Order (Sundhaussen, 1994, p. 280). This situation was aggravated by the strictly structured feudal culture of Central Java adopted by Suharto.

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\(^{10}\) In detail, defining corruption is difficult since it depends on the perspectives used - public interest, public opinion, and legal norms (see Sandholtz and Koetzle, 2000) in which each perspective and even within certain perspective can bring about different perception about what can be categorized as corrupt actions.
who maintained, “the people have to be guided from above” (Vatikiotis, 1994, p. 54).
To implement this perception, the regime built a powerful state that was able to manipulate patronage levels for the objectives of economic development. Accordingly, corruption became the elite’s prerogative as the development was regarded as a legitimating device for Suharto and the wealth in which “patronage and personal gain can be pulled at will” (Vatikiotis, 1994, p. 55).

Power had been personalized on Suharto at the expense of institutionalized controlling mechanisms or any formal separation of powers within the state (Vatikiotis, 1994, p. 147), therefore it contributed to the diffusion of corruption in the government officials, politicians and society. This power allowed Suharto without problems to build his business groups; the structure was integrated with Indonesian Chinese businessmen and foreign capital reflecting common interests between capital and the indigenous politico-bureaucrat power that accordingly was also reflected in the shift from total reliance on power to exercise capital accumulation (Robison, 1986, p. 348-349). It was because appropriate political conduct was substantially dependent on the judgment of the politico-bureaucrats in general and Suharto in particular.

Government intervention and domination in all aspects of societal life created confusion by failing to differentiate between proper conduct and corruption within the state bureaucracy and society. Therefore, corruption became acute and spread to all segments of state institutions, state corporations, even private corporations and society (see for example: Hill, 1994; Vatikiotis, 1994; Robison, 1986; Habir, 1999; Borsuk, 1999; Elson, 2001). Komersialisasi jabatan (the commercialization of public sector
services), *pungutan liar* (illegal payments and exactions), and *KKN*, an acronym of collusion, corruption and nepotism had become common expressions describing an everyday occurrence for all manner of government services (Hill, 1994, p. 71; see also Lim and Stern, 2002). At the ordinary societal level, there was a growing perception that the practices were acceptable owing to the services they obtained from the state officials.

Corruption, however, did not hinder economic growth and development as Indonesia under Suharto was also categorized as one of the fastest growing economies among the developing world countries. MacIntyre (2002, p. 9) emphasizes that “a healthy share of bribes collected flow upwards, with the remainder being distributed proportionately among relevant officials…in regulatory agencies (that) are unable to operate independently to maximize their own take” and was conducted through a state central political control as a single monopoly for the bribe-collecting machine. This had occurred because Suharto was a central political controlling figure who “helped limit rents and direct them in partly productive ways, thus preventing corruption from undermining economic growth” (Lim and Stern, 2002, p. 24).

The nature of domestic capital during the New Order, according to Robison (1986) was composed of the state corporate sector and state managers, the private sector that was comprised of Indigenous and Chinese businesses, and military-owned business groups. During the New Order era, state capital – the state corporate sector and their managers - had been “the necessary precursor for private capital accumulation and the emergence of a strong domestic capitalist class” (*Ibid*, p. 220). It was through
loans from state banks, contracts given by state corporations, and many other schemes that private corporations, mostly Chinese owned, were rapidly growing to be the strongest domestic corporations.

The relationship between state companies and private companies hence reflected the relationship between the politico-bureaucrats inside the state companies with their clients, namely private businessmen. “A large number of the major indigenous business groups developed in the early 1970s through access to contracts for construction and supply offered by the state oil company Pertamina” (Robison, 1996, p. 93). This was driven by the economic nationalist views of its president director – Ibnu Sutowo. This state oil company in the 1970s and early 1980s became the most prominent source of off-budget funds for the government (Habir, 1999, p. 177) and paid for rapid development of much neglected facilities and infrastructures (Vatikiotis, 1994, p. 35). His dismissal as a result of a U.S. $10 billion un-payable debt crisis in 1975, however, led to the difficulty of many of his indigenous clients (Robison, 1996, p. 93).

Furthermore, the indigenous businesses had benefited from the state’s schemes to increase their business share due to the sensitivity of the government to anti-Chinese sentiment that dominated the conglomerate businesses. In promoting these groups, Suharto relied on their family ties, bureaucratic status and the limited number of indigenous businessmen in order to perpetuate their loyalties (Case, 2002, p. 44). This may be the reason that most of them were unable to transform the opportunities to

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11 Ibnu Sutowo himself was one among politico-bureaucrats from the military who accumulated personal wealth from his position as chief executive officer of Pertamina. His business groups had grown to become part of major indigenous business groups (Robison, 1986, p. 350-358).
become “an independent domain of social and economic power to impose accountability upon the state and its officials” (Robison, 1996, p. 97). Instead, they continuously depended on access to the state power and bureaucratic authority as the source of social and economic power.

The largest indigenous business groups were owned by the members of the Suharto family that included his children, grandson, and relatives. Integrating power of the politico-bureaucrat with Chinese and international capital, the groups mostly developed by collecting “minority shareholdings in the major Chinese corporate groups” (Robison, 1986, p. 343) and partnership with foreign businesses from Western countries, Japan and Korea. In the late 1980s and 1990s, these groups, through the children and grandson of Suharto had developed rapidly mostly from “privileged access to import monopolies, forestry concessions, cheap state finance, and other forms of protection and assistance” (Rosser, 2002, p. 35; see also Backman, 1999, p. 260-287).

Chinese businesses represented the most dominant private domestic capitalists. These groups, as represented by many of the largest domestic conglomerates that were owned by individuals, had benefited from state protection and patronage with senior and bureaucratic figures (Hadiz, 1997, p. 206). The links made

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12 The international capital involved with Suharto family business mainly came from Western countries - U.S.A, U.K., France, Germany, Canada, Australia, and New Zealand - and Asian countries of Japan and Korea. As foreign businesses needed local partners, their involvement in corruption practices was done by giving equity free of charge or a loan to be offset with the profit generating from the shares given to the Suharto family members. In case they did not have any intention to involve Suharto family in their business, they directly gave a bribe in the form of donations to charities run by the Suharto family that was usually done by some American companies running afoul the U.S. Foreign Corrupt Practices Act (Backman, 1999, p. 290-296).

13 Of the 300 largest Indonesian enterprises, those controlled by the Chinese comprised 65.7 per cent of the enterprises and they represented 77 per cent of total sales (Jones, 1997, p. 126).
possible transformation and access to state largesse (Rosser, 2002, p. 34). The largest Indonesian conglomerate - Salim group, for instance, is owned by Sudono Salim\textsuperscript{14} – an Indonesian of Chinese descent that had been a personal close friend of Suharto since the 1950s. He had been granted a lucrative flour-milling monopoly since the beginning of the New Order era and access to oil-funded industrial projects as contractors and suppliers in the 1980s (Robison, 1996, p. 91; see also Jones, 1997, p. 121). As a result of this patronage with Suharto, the Salim groups had become the largest Indonesian-based business conglomerate, “and one of the largest in Asia” (Vatikiotis, 1994, p. 14).

Suharto’s close ties with mostly Chinese conglomerates were economically and politically motivated. Given the vulnerable position of this ethnic group in Indonesian society, their economic domination and power would unlikely be used to politically challenge the domination of the New Order regime or to dismantle the structures of political corporatism (Robison, 1996, p. 91; Case, 2002, p. 43-44). Regarding this issue, Robison states that:

\begin{quote}
They (the Chinese capitalists) prefer to take a low profile and develop their political influence through personal links with officials and political figures, and to rely on their economic indispensability and the structural veto power that this embodies, rather than organize publicly on behalf of their common class interests.” (\textit{Ibid}, p. 92)
\end{quote}

Thus, Suharto and the state politico-bureaucrats found it more convenient dealing with the Chinese rather than with the Indigenous business group that could be a potential political threat to the regime. Economically, as has been previously explained, they became the vehicle for Suharto children’s business successes that highlighted clientele

\textsuperscript{14} Sudono Salim and Muhammad Bob Hasan – another Indonesian Chinese conglomerate, involved in various business ventures with Suharto’s children and charitable foundations owned by Suharto. As the closest associates of Suharto since the 1950s, they had direct links to the presidential palace and were more influential than most cabinet ministers (Vatikiotis, 1994, p. 14-15).
connections to gain access to state generated rent taking opportunities. They also looked after Suharto’s financial interests (Jones, 1997, p. 129) by contributing massive funds as off-budget spending for his political objectives (Smith et. al., 2003, p. 295).

The military had been involved in business activities since the early 1950s. The business was built from companies nationalized and taken over in 1958 and with privileged access to government and military contracts and licenses (Robison, 1986, p. 253-254). Direct corporate capital ownership that was primarily conducted in partnership with Chinese and foreign capital became the main military business. This arrangement that provided political protection to the Chinese and foreign capital had structurally excluded smaller indigenous business groups from accumulating capital through trade or small-scale manufacture. It was because the structure of business was characterized by large conglomerates clustered around centres of politico-bureaucratic power mainly military figures (Ibid, p. 267-268).

Military business also took the form of military officers’ involvement as managers of publicly owned corporations. State oil company Pertamina, for instance, had been the main source of military funding since 1968, and was always headed by military figures (Vatikiotis, 1994, p. 72). Many high ranking military officers were also directly involved in businesses owned and operated by the armed forces’ branches through foundations and cooperatives. The most lucrative businesses that evolved directly into personal-enrichment schemes for many senior military officers were from black market business such as smuggling, illegal logging and mining, drug dealing, gambling and prostitution (Kingsbury (2002, p. 292).
4. The PBS Jakarta: Cultural and Political Pressures

The economic success of the New Order has created a common view among Indonesian society that the way the regime managed the state was the appropriate and most effective managerial approach. This view coincided with the New Order authoritarian regime in which there were not many alternatives for most Indonesians - individually or institutionally – except to follow the New Order’s way. It is in this context that the institutionalization of the New Order’s cultural and political values and practices into Indonesian society and organizations was unavoidable. The repressiveness of the government over society, in reality, had given the society no alternative to do otherwise. The success of the order in bringing the country into economic prosperity had additionally inspired the society to model the government managerial style.

It was also in this context that the head of the PBS Jakarta consciously adopted the order’s values and practices inside the school. As discussed in chapter three, there is a tendency that organizations operate within given domains to become structurally and practically similar such that it leads to organizational homogeneity – a process that is called institutional isomorphism. The process can be a result of normative, mimetic or coercive pressures that occur separately or simultaneously. The following narration will explain the institutionalization of societal values and practices represented by the New Order government into the PBS Jakarta. The question is how far did the school adopt the New Order values and practices into its managerial conduct?
4.1. Paternalism and Concentration of Power

The PBS Jakarta adopted from the New Order government the concentration of power model and the patron-client relationship that was driven by economic motives and personal interests. Concentration of power was conducted by monopolizing decision making in the hands of the school head. Power was delegated to the extent that it was related to specialized jobs that needed special expertise. Many brilliant staff were recruited in order to fulfil needed managerial positions especially academic staff and managerial positions related to academic matters. Many academic staff who were widely acknowledged by the school society as skillful staff were appointed to fill managerial positions with tight control over them not to jeopardize the head’s power.

Providing the staff were doing their jobs strictly in accordance with their expertise and were not involved in political maneuvering, they would certainly be given all facilities they asked for. They would also be treated as good staff if the school head was satisfied with their loyalty. There were two possible consequences that might be faced by disloyal staff. If the staff were politically powerful and therefore had the potential to threaten the head’s position, the school head would maintain the relation strictly on a rational working relation between superior – subordinate and keep them in their managerial position. It was dangerous to place these staff outside the management since they had the capacity to mobilize people. Otherwise, they would simply be sacked from their positions.

15 This is in line with the experience of Acong who maintained that the school head was always approved his proposals in the sense that he never threatened the head’s position with his activities rather these would strengthen the head position.
To camouflage the conflicts with the politically powerful staff in front of school’s society, the school head often appointed them to become involved in many ad-hoc teams or committees demonstrating that they were still his close aides. The appointments were aimed at two purposes. First, by involving them into those activities, they would get additional incomes despite their monthly salary that might improve their loyalty. Second, it symbolically showed that these staff were still under the school head control. Loyalty was built by incorporating them into materialistic transactions as Suharto built his legitimacy in front of Indonesian society (Pye, 1985, p. 117).

Given the unlimited authority possessed by the school head, personal relationships were perceived to be the most important factor by most staff. Approval of activities was dependent on this relationship and for non-routine activities, according to Endang, it was also dependent on the ability of a unit manager to convince the school head about the importance of the activity for the institution for what Weber called a rational bureaucracy. Once the head had successfully been persuaded about the importance of the proposed activities, according to Nico, he would usually approve the proposal.

A formal proposal was usually handed over to the institution after getting an informal approval from the school head during informal discussions. The school head’s older brother (S) even explicitly mentioned in front of all managerial staff the important role of the informal meeting with the school head, so indicating a personal relationship, in taking any decision. Jerry also explained his experience in dealing with this situation:
Before I submitted a formal proposal of activities, I had been many preliminary discussions with the school head informally. I often did this while he was playing tennis. From my experience, these discussions in informal environments made it easier to get his approval than through a formal mechanism. Thus, the decision actually had been taken before I presented the proposal. In another words, the proposal was only to fulfil the requirement of the formal system.

Edi Yuwono who had been in the school since 1983 believed that the school head intentionally adopted the Suharto’s leadership style in order to make all staff dependent on him personally; therefore management was centralized on him so that he could control staff activities directly. The fact that the school head relied more on his own policies rather than formal systems and procedures indicated it was only he who knew all state of affairs. As a consequence, subordinates were always dependent on him. The system and procedures adopted were often used as symbol of formality instead of guidance for managerial practices.

Personal connections that dominated daily practices could be seen as a reflection of low trust attitudes of the school head toward subordinates at all levels. The non-existence of any formal criteria to appoint staff to certain positions inside the institution reflected the situation. Therefore, the staff members’ appointment to managerial positions relied on the school head’s prerogative to translate his interests in manners that showed them to be in line with the staff members’ interests. Consequently evaluation too was determined mostly in that way. The mechanism strengthened the pattern of patron-client relationship and consequently it restricted access for staff members who were not the head’s “clients”. Even though there was no overt complaint from the staff regarding the practice, rumour had been circulating in every day
conversations about the growing distrust among staff toward those who were close to the head.

Giving attention to the utmost detail of school matters, TS often personally conducted sudden inspections of the whole campus. Spending time to visit classes, every floor of all buildings, laboratories, library, and even knocked on the door of an academic staff member’s room just to say hello, were among his routine activities. Such a close supervision was done to ensure the cleanliness of the buildings and classes, campus environment and even toilets, orderliness of teaching processes. An academic staff member described how she was surprised when suddenly TS personally knocked on her class door while she was giving a lecture just to make sure that all students were in order and all equipments needed for the lecturing were in place and functioning properly. According to Suwardi, this “one man show” managerial style could not be separated from his extreme carefulness, orderliness and accurateness in doing the whole thing. Thus, the tight monitoring was directed to reinforce his values about discipline and responsibility of the staff and students toward their duties.

As a part of the disciplinary campus life and order, internal security officers were placed in every corner and building inside the campus. Students who broke the order such as vandalizing campus facilities, using drugs, wearing sandals and informal shirts inside campus, and maintaining long hair for male student would be expelled from class, denied access to administrative services, and prohibited from attending examinations. The measures were also directed to keep watch on staff that did not wear the uniform or went out the campus during office hours. Managerial activities and the
campus life were very ordered and in accordance with the school head’s authority. In fact, according to Wiwik, an academic staff member, the order was erected at the expense that most of the students and staff felt afraid to express their ideas.

To visualize his influence, he also created an emblem and hymn of the school that were used up till now. In spite of that, his vision was also reproduced in all physical attributes of the school from buildings to the environment. The architecture of buildings and landscape of the campus all were reflecting his historic physical achievement. It can be said that as Suharto who placed the New Order legitimacy on economic development for the Indonesians in general, the physical attributes and images of the PBS Jakarta had been the legacy of the school head and became his legitimating device.

As noted in chapter five, formal governing bodies inside the school were co-opted in order to suppress the rise of power that might be potentially threatening to the status quo. Power is shaped by domination and control (Dorriots and Johansson, 1999) so that loosening his domination and control over the governing bodies could undermine his power. Arranging and screening their membership composition or orchestrating their leadership election was widely acknowledged. There were no organizations inside campus formed without blessing from the school head. Even, informal religious discussions conducted by staffs from outside head’s religious group were always suspected as terrorizing the head and his group domination. All was done for the purpose of maintaining his political and financial control.
Chapter 7 – PBS Jakarta: Institutionalization of the New Order Cultural and Political Values and Practices

4.2. Rent-Seeking and Corrupt Practices

The politico-bureaucrats’ management style adopted placed the school head as a central figure. It was mirrored in the management of rent-seeking in which all transactions, especially big scale transactions, were centralized while giving a chance to subordinates to do their own thing in an “appropriate manner”. Encouraged by the Javanese cultural perspective, there was a general perception among the majority of staff that as the one who contributed most to the development of the school, so it was reasonable and fair if the school head took financial benefits from the school. Suwardi shared similar ideas by arguing that rent seeking attitudes that were taking place inside the school could not easily be judged as corruption, an opinion that rested on the public opinion perspective (Sandholtz and Koetzle, 2000, p. 34) in which people inside the school tolerated and even were involved in the practices.

The acceptance was soon followed and also widely practiced by staff inside the school. The staff members from supporting units of the Archival and Secretariat, and the Equipment and Household Affairs, for instance, which were supposed to provide services to all units inside the school, were taking bribes from those who wanted to use their service in order to speed up the service. A staff member from the Department of Accountancy recalled her experience by saying that:

We had to reserve an honorarium – in fact bribery expenses I thought - to be allocated to the staff from supporting units with which we were dealing with. For example, if we needed to photocopy in the Archival and Secretariat unit (known as Arsek unit), we had to give money to the staff involved from that unit. Otherwise, we would get a problem of a delay or rejection. So when we had to deal with staff from the Equipment and Household Affairs unit (known as Peruta unit) to use certain equipment or cars, we also had to bribe them. As a consequence, the budget we prepared always disguisedly included these kinds of bribery expenses. Since it was taking place everywhere in this school, I
did not think that this could be judged as some kind of corrupt practices. People became permissive toward this practice as most staff were directly involved.

The school head obviously knew what was going on and he was letting this to happen as a part of his managerial belief to distribute wealth to staff.

Businesses related to the school, such as catering, building and equipment maintenance, cleaning service, parking, gardening and supply contractors, were all done by involving the school head’s family and cronies both directly under his wife and family or by using proxy businessmen on behalf of the school head. The rent seeking business practices created skepticism among several staff about the trustworthiness of transactional evidence given that marking up the cost of the transactions had been widely accepted in doing business inside the school\textsuperscript{16}. What had been done by the New Order, in this case, was in line with the interest of the head of the school in institutionalizing personal wealth through his family business into the PBS Jakarta.

Neo-patrimonialism was demonstrated by giving economic privileges to cronies and supporters to keep up the personalistic managerial style of the school head. Under the style, the chief executive’s influence rested on an extensive personal patronage network, rather than ideology or impersonal regulations, systems and procedures (Snyder, 1992, p. 379). His network of personal loyalties and financial relationships that he had built since 1974 – over more than a two decades long career - determined his success in managing the school. It, however, as usually happens in a personalistic

\textsuperscript{16} The practice of mark up of transactional cost that involved both supplier and customer was common during the New Order era. Even, the initiation often came from the supplier by asking the customer “how much the customer wanted the price to be written in the invoice”.

211
managerial style, could not easily be appropriated by his successor, in this case, his older brother (S) who held the position as the school head from 1996 to 1999.\textsuperscript{17}

5. The PBS Jakarta: Government and Regulative Pressures

Higher education institutions in Indonesia are highly regulated. Government intervention is achieved through bureaucratization and other forms of standardization of the higher education institution introduced by the government via the Directorate of Private Higher Education (DPHE) - Directorate General of Higher Education (DGHE) – Ministry of Education and Culture the Republic of Indonesia by promulgating government regulations, Minister’s decrees, and Director General’s decisions. The intention was to create uniformity among the higher education institutions in either public or private institutions.

The Indonesian parliament (\textit{DPR}) approval of the National Education Law in 1989 that was proposed by the government gives further legitimate foundation to the government to intervene in the domestic affairs of higher education institutions. To implement the law into practice, the government issued Government Regulation PP No. 30/1990 that applied to all higher education institutions. In accordance with the spirit of the New Order government, the regulation is intended to intervene deeply into all aspects of higher education institutions ranging from general requirements such as objective, establishment, physical structure and infrastructure, and cooperation; academic matters such as curricula, freedom of expression, and academic degrees; organizational structures and job descriptions; academic staff; student and alumni;

\textsuperscript{17} Growing pressures from students and academic staff toward school’s managerial reform had forced S resignation as the school head in 1999 and this marked the end of TS’ domination over the school.
funding, financial responsibility and efficiency to government control on academic quality and accreditation.

5.1. Academic Issues

The general requirements required that the objectives of higher education institutions be in line with Pancasila state ideology interpreted according to the New Order’s point of view that was known as P-4\(^{18}\) and the 1945 Indonesian Constitution. Furthermore, the requirements and mechanism to establish a new institution, faculty, department or program was to be determined on behalf of the government by the Minister of Education and Culture. It is the Minister also who holds the authority to approve or reject the proposal through the DGHE.

The government determines a national curricula that functions as a guideline for education institutions in setting up their curricula especially for private institutions in order to determine whether the minimum requirements of education conducted by higher education institutions were fulfilled. The curricula accordingly needs to get approval from the Minister of Education and Culture. Such approval indicates that the controlling mechanism that is undertaken by the government over higher education institutions is conducted at many stages from the approval of curricula, reporting the result of students’ examinations to getting an approval for students’ certificates.

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\(^{18}\) On 22 March 1978, the MPR approved a decree entitled Guidance to the Full Comprehension and Practice of Pancasila known as P-4 \textit{(Pedoman Penghayatan dan Pengamalan Pancasila)}. The Guidance therefore became the sole legitimate interpretation of Pancasila under the New Order regime of Suharto. That actually reflected Suharto’s own view on Pancasila then massively indoctrinated and implemented through ideological education courses to all segments of society (see, Elson, 2001; Ramage, 1995; Warren, 1989). It was under this massive indoctrination of ideological courses that the New Order regime successfully imposed the Pancasila as the sole ideology for all organizations in 1985 that became “a powerful weapon for curbing dissentient views of all kinds” (Mackie and Maclntyre, 1994, p. 15).
The PBS Jakarta had been experiencing difficulty in its effort to accommodate “local contents”\(^{19}\) into its curricula given that the total credit semesters mandated by the national curricula made up most of the curricula needed for the undergraduate and non-degree programs. As it was impossible to add new subjects into the curricula, decoupling from its formal curricula finally took place in the school by including the mandatory subjects demanded by the national curricula in the school’s curricula with different content.

An Indonesian anthropologist, Kartodirdjo (1984, p. 195) argues that within the modern Indonesia, Western educated people are able to manipulate Western symbols so that they are given high status – a status that leads them to become the dominant group within the society. Western education becomes the gateway to enter the group in the form of “social mobility which oriented opportunities to a group of men who assumed political power, at the expense of the traditional elite” (Ibid, p. 196). Such education has successfully minimized the influence of birth and social status that represent basic values within traditional society (Kartodirdjo, 1984, p. 196; see also social mobility within the context of Javanese people to become \textit{priyayi}\(^{20}\) in Koentjaraningrat, 1985).

Under this societal context, the government released the regulations to tightly control the name of academic degrees granted and the requirements needed to be

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\(^{19}\) The “local contents” refers to the subjects offered that are not mentioned in the national curricula. The subjects usually reflect the distinctiveness of the institutions. The PBS Jakarta had been accommodating “local contents” that emphasized banking and finance despite the dominant subjects demanded by the national curricula.

\(^{20}\) See chapter five for discussion about the \textit{priyayi} class within the Javanese cultural context.
granted the degree. Western education becomes eminently attractive in providing a ticket to entrance to various official posts – occupational positions that indicate class status, prestige and economic benefits (Kartodirdjo, 1984, p. 197). Unfortunately, for financial motives, this situation has been exploited by irresponsible individuals or institutions within some private higher education institutions by symbolically adopting the requirements to grant academic degrees without practically fulfilling the minimal qualification needed.\footnote{The practices still exist until today that even involve education institutions from overseas since the 1990s mainly from the USA. The DGHE eventually warns and releases the name of institutions that are involved in this practice and does not give an approval to the degree released. The government, however, does not have the power to close the practices and hands the recognition over to society.}

To assess the quality of education conducted by private higher education institutions, the Ministry of Education and Culture regularly evaluate the education process of the institutions ranging from the evaluation of physical facilities, educational staff numbers and their qualifications, academic administration to number of yearly students enrolled and graduated. There were three levels of accreditation given, namely terdaftar (registered), diakui (acknowledged), and disamakan (placed on par with public universities).\footnote{Given the massive corruption within the state bureaucracy, it had been common practice that the politico-bureaucrats inside the Coordinator of Private Higher Education under the DGHE of the Department of Education and Culture took bribery from the management of private higher educations to speed up the process and even to influence the result.} The accreditation was undertaken for every department and program. All accreditation stages referred to public universities. Departments and programs that were given disamakan status would be treated equally with the departments or programs managed by the public universities.\footnote{The accreditation was criticized by private higher education institutions for the reason that it had placed the private higher education as a second class education. In 15 December 1994, Minister of Education and Culture released a Ministerial Decree SK No. 0326/U/1994 forming a National Accreditation Agency for Higher Education known as BAN-PT to end the discriminative evaluation} Since 1990, all
departments and programs within the PBS Jakarta had been given *disamakan* status with the undergraduate program in accountancy becoming the last program to obtain the status.

### 5.2. Organization Structure

In 1988, the government introduced the Government Regulation PP No. 3/ 1988 \(^{24}\) that was intended to standardize job description and organizational structure of private higher education institutions. Previously no specific regulation existed regarding that matter so that the organizational structures differed among institutions. The head of the PBS Jakarta at the time was called *Dekan* or Dean, referring to the head of a faculty within a university as the school was a higher degree granting institution equal to the faculty of economics. The organizational structure of the PBS Jakarta, however, had not complied with the regulation yet until the government replaced it with the new regulation in 1990 that standardized all higher education institutions – public and private in detail.

The Government Regulation PP No. 3/1988 explicitly mentioned that a school of higher education was headed by a school head assisted by three vice-heads of academic, general administrative, and student affairs. The regulation was shortly replaced with the Government Regulation PP No. 30/1990. It was after the applied to the private higher education. On 7 August 1998, the decree was replaced with Minister Decree SK No. 187/U/1998 that affirms the independence of the agency from the government. It was after this new decree that in 1999 the agency started to carry out accreditation to all higher education institutions - public and private institutions. On 17 January 2002, the government released the Minister Decree SK No. 004/U/2002 saying that the DGHE will use the result of the accreditation to control higher education institutions. Furthermore, the decree emphasizes that accreditation is a public responsibility of the higher education institutions.

\(^{24}\) The regulation was issued as a mandatory guidance for schools of higher education institutions in setting up the organizational structure of the school and the job descriptions.
promulgation of this regulation that the PBS Jakarta changed its organizational structure to comply. The regulation described the organizational structure of a school of higher education in detail so that the school then changed its organizational structure from top into the lowest level managerial position. Since that time, all schools of higher education institutions had to comply with organizational structure demanded by the regulation – therefore uniformity was accomplished.

The government intention to standardize all aspects of education was even done by regulating the working mechanism in managing the funds of higher education institutions as it was explicitly mentioned in the regulation PP No. 30/1990. For private institution such as the PBS Jakarta, the regulation maintained that annual revenues and expenditures budgets prepared by the head had to be approved by the Senate of the school before it was given to the Foundation (YPP) to be declared as an official annual budget. Related to the annual budget, a similar mechanism was applied in determining the structure of student fees, allocation of the fees collected, and systems and procedures to manage the funds.

As has been explained in chapters five and six, the power structure in the PBS Jakarta was concentrated in one person, namely the school head. It was the head who held the sole control of budget preparation and funds management. Accordingly the mechanism adopted was more symbolic than real, besides the spirit of the regulation itself was likely to concentrate power in the hands of the school head. The Senate’s membership was dominated by his supporters and he, according to the PP No. 30/
1990, automatically became the head of the Senate. Therefore, the government regulation that reflected the New Order values justified the power concentration inside the school.

### 5.3. Student Activities

Academic freedom of expression became a serious target of the New Order government to be regulated in order to keep students away from political activities inside campuses. Free expression of ideas during the early years of the New Order had sparked and given rise to student demonstrations in the streets and campuses to oppose the regime that finally mounted into anti “Japanese neocolonialism” demonstrations during the visit of Prime Minister Tanaka of Japan to Jakarta in January 1974 known as the Malari affair (Mackie and MacIntyre, 1994, p. 13; see also Elson, 2001, p. 203-211). Student demonstrations throughout Indonesia continued until 1978 for the reason that “Suharto’s New Order had not delivered the promised fruits of development throughout society, was mired in high-level corruption and moral vacuity, and was becoming increasingly repressive and unresponsive” (Elson, 2001, p. 221). The demonstrations escalated during MPR assembled on 11 March 1978 putting pressures on the MPR not to reelect Suharto for the third term as President.

After reelected as President for the third term in 1978 and accordingly having survived the second term difficult phase, “Suharto took firm measures in 1978-1979 to ensure that there would be no repetition of such opposition” (Mackie and MacIntyre, 1994, p. 15). In line with an increasing reliance of the regime on exclusion, coercion

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25 The issue about the Senate of the PBS Jakarta has been discussed in detail in chapter five.
and repression (Anderson, 1978), the government outlawed student political movements on university or school campuses. The government then abolished the autonomy enjoyed by student organizations inside campuses by placing all organizations and activities under the direct control of university rectors or school heads.

In early 1977, Suharto made an injunction on rectors to curb student political activism by asking to develop “a special campus life with Indonesian characteristics” (Elson, 2001, p. 221) - an injunction that seemingly referred to the interpretation of Pancasila ideology in which all differences had to be solved by musyawarah (friendly joint deliberation) and mufakat (consensus). It was then followed up by Minister of Education and Culture’s decrees regarding reorganization of all student organizations inside the campus in which all were under supervision of the university rectors or the school heads. This decree gave an almost absolute authority to the rectors or heads to intervene in all student affairs.

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26 Minister of Education and Culture decree SK No. 0156/U/1978 outlawed student political activity and expression on campus, and allowing only discussion of political subjects inside class. Instruction of Minister of Education and Culture No. 1/U/1978 and Minister of Education and Culture decree SK No. 037/U/1978 outlawed campus-wide student councils known as Dewan Mahasiswa and limited the acceptable content of student activities on student welfare, recreation, and intellectual matters.

27 “Indonesian students had, in fact, been active in overthrowing the Sukarno regime and in establishing the Suharto government. They later served as the most outspoken critics of the New Order, standing in line with other opposition groups” (Suryadinata, 1998, p. 137). Normalizing Campus Life Bill also known as Normalisasi Kehidupan kampus – NKK introduced by the Minister of Education and Culture that stipulated students concentrate on their studies without getting involved in politics was seen by members of student bodies as the government’s effort to curb student democratic rights. Under the heavy rejection pressures from students, the DPR finally approved the bill to become law in 12 February 1980 after Golkar and the armed forces in parliament voted together and defeated opposition parties (Ibid, p. 139).
Inside the PBS Jakarta, the school head strictly controlled the student organizations including the requirements of committee membership of organizations. The head even could intervene and override the student election results. All students’ activities were enormously dependent on the head’s approval both the kinds of activity to be conducted and the funds needed. A rejection of a proposal of students’ activity might be made directly by giving a final “no”, by asking them to revise the activity proposed, or indirectly by cutting the proposed budget to a level at which the activity was impossible. In line with the regulation PP No. 30/ 1990 that explicitly insisted all student organizations inside campus be accountable to the school head, student activities were unlikely to be approved if they would jeopardize the head’s position.

In addition, to strengthening his authority, as Suharto who always appeared daily on national television and newspapers as a “father” of the nation (Guinness, 1994, p. 272) giving advice to his “children”, the school head always gave guidance speeches to members of the student organizations and all staff in regular meetings. Instructions and decisions were announced at the meetings in the same way a father gave instructions to his children. The meetings simultaneously were used to assess the loyalty of the students and staff. Absence from the meetings without any consent was judged as disloyalty and disrespect – a perception that most students and staff were likely to avoid due to the painful consequences they might face.

The school head himself was a politician from the Golkar ruling party of the New Order. Therefore, the intention of the government to curb the students’ political activities in order to maintain political stability and order was in line with his intention
to maintain his power inside the school. For the government itself, the regulation was apparently directed to shift the burden of curbing student political activism from the government via armed forces as it was done in 1974 during the Malari affairs or 1977-1978 student protests to the management of the higher education institutions. University rectors or school heads in turn were accountable to military and civilian authorities in implementing the policies. The Government Regulation PP No. 30/1990 gave the President authority, on advice of the Minister of Education and Culture, to hire and fire all rectors of public universities. For rectors of private universities and heads of private schools, the authority rested with the Minister to hire and fire the rectors or heads – it needs Ministerial approval.

6. Isomorphic Analysis

Institutionalization of the New Order cultural and political values and practices in the PBS Jakarta was in line with the personal interests of the school head. Despite the concurrence in admiring the Javanese culture as Suharto did, the school head also shared the same political values with the New Order government as he was a politician belonging to the ruling political party Golkar. Therefore, following Suharto, incorporating his personal interests into the school was politically and culturally justified as it had been widely accepted as appropriate by society inside the institution. This instigated isomorphic pressures for the school head to mimic the New Order values and practices in the school.

Given the high potential enforcement from and similar objectives of the school head with the New Order’s authoritarian regime, acquiescence was the organizational
strategy adopted by the school to habit, imitate and comply with the cultural and political values of the regime. The instilling of the Javanese culture in the school revealed taken for granted norms and values that were admired by the school head as a Javanese person. Therefore, President Suharto’s Javanese leadership style was vastly compliant with the interests of the school head.

Imitation became so prevalent when certainly the school head joined the management of the school with the uncertain and bleak future in 1974. The school, at the time, had no infrastructure and students and even faced bankruptcy when its student numbers constantly declined. The same situation was approximately faced by President Suharto when he inherited power in 1967 from the former President Sukarno. In response to this uncertainty, according to DiMaggio and Powell (1983), decision makers of an organization tend to mimic other actors whom they trust. TS as a politician from the ruling party Golkar obviously admired Suharto as the central figure of the political regime so he intentionally imitated Suharto’s managerial conduct.

The continual growing of the school to be one among the biggest higher educational business schools in Indonesia in the late 1980s had boosted the school head’s confidence to be more active in his conscious obedience of the New Order values and practices inside the school. Compliance with the broader cultural and political pressures was intended to preserve the head’s domination and determination in the forms of a wider social support from the school’s stakeholders. The fact that the school developed rapidly under his management represented the social construction of reality in which the legitimacy rested and was obtained.
Chapter 7 – PBS Jakarta: Institutionalization of the New Order Cultural and Political Values and Practices

The regulatory pressures in the form of the educational law and government regulations that were institutionalized in the school reflected the normative and coercive pressures respectively. The coercive forces took the form of statutory requirement (the government’s mandates)\(^{28}\) that directly affected the school in managing its internal affairs. The statutory requirements reflected the political values and practices of the New Order government to assume control over society - the extensive power that was reaching all areas of the education.

The compliance was in line with the interest of the head of the PBS Jakarta to keep his domination inside the school as suggested by Endang that since the late 1980s, the management of the school was more like how the New Order government managed the country than before. The school head repeatedly emphasized his position as a government representative in the school referring to the Minister of Education and Culture’s approval particularly in dealing with his opponents. The statement that was directed to reveal the government’s legitimacy of his position had successfully deterred most opponents and boosted his power in front of staff and students.

It was also derived from normative pressures in the form of the mandatory national curricula to be taught inside the school. Within the undergraduate program of accounting, for instance, the curricula represented the minimum requirement accepted by the accounting professional body for students to qualify as *Sarjana Akuntansi* or

\(^{28}\) The PBS Jakarta had no choice but to follow the regulative environment. This can be seen “as a direct process of steering that is seeking to colonize the organizational interpretive schemes” (Broadbent, *et. al.*, 2001, p. 570). In line with the idea of institutional theory, the colonization or institutionalization was also motivated by the fact this was the only route to educational legitimation.
Bachelor in Accounting. The interest of the accounting profession, in this case, was nationally institutionalized into the school through the Ministry of Education and Culture. As narrated in chapter one, the government had been continuously supporting the profession to produce *Sarjana Akuntansi* which it needed to back up the government’s economic development program.

In general, the national curricula were prepared by the DGHE, on advice of certain leading public universities. Therefore, it was difficult to maintain that the whole curricula resulted from normative pressures rather it was some sort of coercive pressures conducted by some leading public universities via the Ministry of Education and Culture. The discriminative treatment faced by private higher education institutions prior to the formation of the National Accreditation Agency for Higher Education known as BAN-PT supported the indication of the political maneuvering to maintain the supremacy of certain leading public universities through the DGHE.

To a certain degree, the school used a strategy of avoidance in the form of buffering the national curricula adopted in order to reduce external scrutiny and evaluation from the Ministry of Education and Culture. Decoupling from the curricula mandated was made by adopting the name of certain subjects without necessarily complying with the contents. Human relations for that reason had a very important role in dealing with the government authority to negotiate and get an approval to not comply with the rules. Provided that the school had engaged in this ceremonial pretense, to the government authority, this buffering tactic was acceptable.
7. Concluding Remarks

Institutional theory maintains that “highly structured organizational fields provide a context in which individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture, and output” (DiMaggio and Powell, 1983, p. 147). Thus, the emphasis is on conformity, passivity, and preconscious acceptance (Oliver, 1991, p. 143). From the discussion in chapters five and six, however, it was shown that power was systematically built and concentrated in the hands of the head of the PBS Jakarta by mobilizing the power over resources, decision making and meaning (Hardy, 1996) and exercising political and social barriers through status groups – religion and ethnicity. Therefore, as has been elaborated in this chapter, the response to the external pressures was active and politically motivated as it was in line with the personal interests of the school head.

What was the role of accounting in particular and organizational control system in general under such circumstances? The bureaucratic-authoritarian regime and paternalistic leadership style of the New Order government, to some extent, had contributed to poor auditing controls and inaccurate reporting of assets quality. In fact, accounting as a formal structure had been decoupled from its intended purpose of efficiency measurement and utilized for social legitimacy. The managerial style that was adopted by the school in which all managerial affairs were centralized on the school head was seemingly conducive to the enactment of similar practices. Such style would certainly hinder the controlling mechanism, accounting included, to work properly. The next chapter will narrate the accounting and control system consequences.
of the institutionalization of the New Order cultural and political values and practices into the PBS Jakarta.
Chapter Eight

Perbanas Business School Jakarta: Organizational Control System

1. Introduction

An organizational control system closely relates to interaction between the structure as a socially constructed institutional realm and the agency as the realm of action (Burns and Scapens, 2000). The action of control system as used here refers to “all organizational arrangements, formal and informal, designed to accomplish organizational objectives” (Ansari and Bell, 1991, p. 4). The formal control system refers to rules, standard operating procedures, organizational structures, job descriptions, budgets, accounting measurements and performance evaluation systems. The system is driven by the technical-rational view that originates from environmental determinism, economic efficiency and rationality (Ibid, p. 5-6). As a matter of fact, accounting becomes the key mediator for many of these activities - its role in the organizational control system, however, cannot be separated from the societal and cultural contexts that frame and mediate the role.

The control system is also formed and shaped by the informal system that emanates from the societal, cultural and political environment in which the system operates. Given the interaction among interest groups and individuals inside the organization, the technical rationality can only be effectively achieved through negotiation - political rationality - that mediates among conflicting parties pursuing their own interests, because “each interest group in an organization pursues its own ends in accordance with its own rationality…and its own control capabilities” (Dermer
A stable order of organizational control system therefore inevitably needs sharing of power even though only the formal system associated with senior management interests is publicly acknowledged. In a broader view, the control system needs to focus on management, stakeholders, formal and informal institutions, and patterns of belief or ideologies so that the criteria proposed by the management does not rule out “the possibility that different versions of this order may exist in the minds of other organizational participants” (Dermer, 1988, p. 30).

Within this perspective, accounting knowledge is being interpreted differently inside and across organizational spaces and times (Quattrone and Hopper, 2001, p. 407) due to the influence of cultural aspects or political processes (Meyer and Rowan, 1977; Covaleski and Dirsmith, 1988a). The cultural and political contexts of the New Order government that framed the social values and practices inside the PBS Jakarta might influence the way accounting was constructed and functioned during that era. It is within this perspective that this chapter will inscribe practices of the organizational control system in the PBS Jakarta during the New Order era with the emphasis given to the signification of budgeting and accounting practices inside the organization.

2. Informal Authorities and Cultural Dimension of Control System

Formal authority in an organization is generally represented and captured by its organizational chart as it represents “the official system of accountability, control and influence and is based on scalar principles of authority” (Abernethy and Vagnoni, 2004, p. 210). The organizational chart institutionalized and rationalized the arrangement of the division of labour inside an organization. This idea is closely related to the
Weberian concept of modern bureaucratic organization that according to Molina (2001, p. 79) places its operation on the division of labour that is carried out through non-overlapping functional divisions, “a hierarchy of coordination and control and with procedures and rules of action that guarantees formalized and impersonal relationships among its members”. Therefore, the relationship between individuals and authority is formal and impersonal (DiPadova, 1996, p. 68).

Informal authority, in contrast, is embedded within common values, beliefs and even traditions that direct group members’ behaviour (Falkenberg and Herremans, 1995, p. 134). This relates to the power and influence of dominant coalition that can be an individual or group of individuals that are able to influence decisions and activities inside an organization without sanction by the formal authority of the system (Abernethy and Vagnoni, 2004, p. 211). While the formal authority intensifies the effects of domination in the form of legitimized power (Morgan, 1997, p. 172), the informal authority is reflected in a set of legitimating ideas that according to Weber becomes the other requisite of a system of domination (Weiss, 1983, p. 246).

As mentioned in chapter six, formal and informal authority in the PBS Jakarta rested on the school head as the dominating figure in the school. It was relatively difficult to differentiate between the two as the school head, with the reason of exercising his prerogative authority, could easily override the formal authority. As a result, the power structure as represented in the formal positions of the organizational chart (Morgan, 1997, p. 173) lost its credibility in front of subordinates. Therefore, it was quite common that the subordinates bypassed the authority of their superiors as
prescribed in the formal organizational structure because the school head asked them to do so – managerial practices that placed the relationship between staff and the school head as the authoritative individual inside the school on a more personal than formal level.

The patronage relationship between the school head as the patron and the staff as the clients, culturally and politically had pushed the staff to comply only with the will and instruction that came from the school head. The New Order government paternalistic political conduct in managing the state had intentionally been institutionalized into organizational practices in the school. Consequently, the formal authority mentioned in the organizational chart functioned as a symbolic display to comply with the external pressures, in this case from the government regulations and the school’s society, rather than to steer the daily managerial conduct.

The role of the informal authority inside the PBS Jakarta was reflexively inherent within the Javanese culture adopted. The culture was used to encourage the position of the school head as a father with an authoritative power beyond the described formal authority - a socially constructed form of rationality (Garfinkel, 1967; see also Thompson, 1980 for organizational rationality). The unlimited power that was held by the school head was socially constructed and therefore justified within the perspective of the Javanese cultural concept of power. The authority was socially constructed in accordance with the Javanese value systems and cultural preferences that were widely practiced by Indonesian society.
As a social world, especially new entrants inside the school took the paternalistic managerial practice for granted and regarded it as natural and legitimate.\textsuperscript{1} The school head successfully reproduced the paternalistic values and preferences in the school. These facilitated social cohesion, work and workplace commitment, reduced opposition and conflict and enhanced the emphasis on harmony and consensus. Systematic efforts, as narrated in chapter five, were carried out to establish a paternalistic world-view among staff members to be transformed into a convention - an interpretive scheme - that gave meaning and interpretation to actions. Giddens (1976) refers to this process as signification. The cultural meaning was managed in the everyday leadership (Alvesson, 1996, p. 67) of the school head in which he always placed his role as a father to all staff. This day-to-day taken for granted nature of organizational life displayed the school head’s power.

Either consciously or unconsciously, people tend to adjust their behaviour to comply with cultural or societal environments in which they live that lead “to mutually accepted ways of conduct, the meaning of which can sometimes be purely ritualistic” (Grandlund and Lukka, 1998, p. 188). The government requirement that was imposed through the Ministry of Education and Culture, as explained in chapter seven, required the PBS Jakarta to develop the formal organizational structure in accordance with the Government Regulation PP No. 30/ 1990. Therefore, such authority that rests on hierarchical, technical and bureaucratic control does not necessarily and appropriately require individuals inside an organization to believe in or internalize it but merely to conform to it (Ashforth and Mael, 1998, p. 92). Alas, the paternalistic managerial style

\textsuperscript{1} The Javanese cultural values of paternalism was widely adopted and practiced by the New Order government and state bureaucracy. Chapter six discusses the issue of paternalism in detail.
adopted had supported the symbolic adoption of the formal organizational structure that was mandated by the government authority as a ritual.

This leads to malpractice in the formal organizational hierarchy – a situation when managerial positions are occupied by staff members who are involved in cronyism and clientele relationship without necessarily having the aptitude for these positions (Gunn, 1995, p. 30). The promotion of the staff inside the school, for instance, was often based on status instead of productivity/performance. Rewarding cronies and clients – the staff who supported the school head – and punishing enemies – those who were against the school head – was done by exercising his control over the school’s fund. This “carrot” and “stick” approach that was based on subjective evaluation was disguised by creating a standard form of evaluation to create an illusion that the reward and punishment was “rational” and therefore acceptable. Thus, instead of a formal control structure, the control mechanism relied on the informal control in the hands of the school head as the most dominant figure.

According to Manson et al (2001, p. 113), domination arises from the use of “allocative resources (control over objects or materials) and authoritative resources (command over individuals)”. In the PBS Jakarta, the authoritative resources took place in the form of the school head’s command over staff members through formal organizational structure and informal structure of paternalism. The formal structure had been exploited to gain the staff’s loyalty by channeling managerial positions and financial access to those who desired to be the school head’s clients. Instead of a formal control system, consequently, the school head played an important role in the
organizational control system. The allocative resources that will be narrated in the following section was conducted by controlling financial resources in the form of budget approval in order to strengthen the domination of the school head over the school’s community.

3. Management Budgeting

For staff members at the PBS Jakarta, budget was associated with bargaining to obtain the money from the school to run their activities or to buy something related to their units. To get the money meant to get authorization from the school head regarding the budget proposal they submitted. They were well aware of the importance of the budget as a medium to get the needed financial support because the school would never give the money to execute programs without a proposal with a budget. Thus, for them, a budget referred to the legitimating process in the form of a financial proposal to be submitted to the institution prior to conducting an activity.

In contrast, the school head interpreted the quantitative budget as a “financial device” to exercise his power regardless of its purpose to create a rational legitimacy to the school’s stakeholders. Since he had successfully concentrated three important and strategic positions respectively in his hands - the school, the YPP and the Perbanas - he held the absolute power/domination to cut or give funding to organizational units that asked for money through a budget proposal. Budget approval was entirely dependent on him. By controlling the money, the school head was able to exercise power in order to modify behaviour of staff members and bring them toward the desired behaviour. Hardy (1996, p. 7) maintains that exercising power over resources needs a “continual
deployment of either carrot or stick” mechanism to ensure that the desired behaviour is sustained – a practice that was continuously used by the head of the PBS Jakarta.

The process of budget preparation was closely related to the annual programs of the school. The proposed budget reflected the monies needed to execute the programs that had already been approved during an annual managerial meeting – a meeting that was attended by all managerial staff members, the school head and all school vice-heads. The annual meeting mainly discussed two important issues – evaluation of the previous year’s achievements and discussion of the next year’s programs for every organizational unit. To be approved as the next annual program in the meeting, the proposed programs had to be formally discussed and evaluated by all participants. The programs that were approved in the meeting by the school head turned out to be the next annual school program.

The school, however, did not have any guideline concerning the determination of budget amounts in which each staff followed his/her own judgment. The only benchmark available was an informal consensus among staff members regarding budget of routine activities that next year’s budget had to be higher than the current budget – a consensus that was apparently and unofficially approved by the school head. Consequently, the increase was determined merely on individual judgment or intuition of the heads of organizational units or committees. According to Listijowati, an ex-treasurer, this situation led to the variety of calculation in which certain units or committees determined their budget extremely high - for instance, organizational units
under the coordination of vice-head of Student Affairs - while others increased their budgets moderately.

Acong, for instance, mentioned that he calculated the budget based on last year’s budget plus a ten per cent increase. The increase was directed to cover the annual inflation rate and price rises. Mustanwir, an ex-manager of Academic Affairs unit, on the other hand, determined the budget by considering the nature of the activities – those that involved purchasing transactions from outside suppliers and those that did not involved such transactions at all. For the first category of routine activities, Mustanwir claimed that the budget was calculated by considering market prices that were offered by the suppliers. The budget for the activities that could be categorized into the second category was calculated approximately by using last year’s budget plus a certain percentage increasing no more than ten percent.

The budget was never discussed in managerial meetings involving middle and lower level managers. Until 1994, organizational units’ involvement was mainly in preparing semester and annual programs for their own units and they proposed a budget only when they needed the money to execute a program. This created an impression and a general perception among staff members that the school had an unlimited amount of money to be spent. Therefore, the budgeting discourse inside the school was nothing to do with the notion of efficiency and performance measurement. Rather, as emphasized by Listijowati and Sodikun, both as ex-treasurer and ex-vice treasurer, the school annual budget was simply used as planning for cash flows.
To the staff members, thus, the only relevant issue was how much money they could get from the institution to execute their program. They never knew the financial position of the school. Jerry, for instance, described that the staff always thought that the school had an unlimited fund to be spent as the school head always emphasized his commitment to the development of the school. This perception was intensified by the fact that either in managerial meetings or in annual managerial meetings to prepare annual programs, the school head never discussed the budget – that meant that the school never had financial problems. In many occasions, he intentionally stated in front of staff members not to hesitate to ask for money to execute their program if they needed – an impression that the school was fully committed to financially support all the programs.

Starting from 1995, the school head asked organizational units to prepare their annual budget. The process of budget preparation started when the organizational units prepared its annual budget. Therefore, all unit activities had to rely on their annual budget. Each organizational unit then submitted the annual budget to the Treasury unit. After receiving the unit’s budgets, the Treasury unit compiled and reformulated the budgets to be discussed with the school head and his vice-heads. Alas, the unit heads were not involved in discussing the final annual budget because at this stage their involvement had been taken over by their superiors (school vice-heads).

It was at this level that the whole proposed annual budget would be evaluated. The school head held a central role in the evaluation process. The focus of discussion,
according to Sodikun\textsuperscript{2}, was more on the total funds needed rather than on the detail of the budget. Budget revision, if it were done, would never be informed to the organizational units any longer. The revised proposed budget that had been approved by the school head was then submitted to the Foundation (YPP) to get an approval as an official annual budget. This would be used by the YPP and the management of the school in realizing the money needed to run the school for the whole year. Since the school head was also the treasurer of the YPP, the approval mechanism was mostly symbolic and ceremonial.

This change in the budgeting mechanism, however, did not have any impact on shifting the power over resources and fund allocations from the school head to the organizational unit heads and committees. The pattern of realization remained unaffected. To get realization, each unit or committee had to submit the budget for the activity that would be conducted to the Treasury unit.\textsuperscript{3} The treasurer then passed the proposal to the vice-head of Finance and General Affairs\textsuperscript{4}, the person in-charge of evaluating the proposal. The result of the evaluation would be submitted to the school

\textsuperscript{2} It was Sodikun who introduced the budgeting mechanism by involving each unit of organization to prepare its annual budget. TS’ approval to such mechanism was undoubtedly driven by the fact that he no longer held the managerial position as the school head. By accepting this mechanism, he could maintain his control over the school and could easily monitor financial affairs of the school through his position as executive officer of the YPP that dealt directly with the management of the school - in this case with the school head, vice-heads, treasurer and vice-treasurer. Sodikun was the second accountant who held the managerial position in the Treasury unit that traditionally was always held by the school head’s trusted staff. Apparently, his long time position as vice-treasurer – in fact he was never promoted to be a treasurer until he resigned due to illness - was related to the fact that the school head never fully trusted him.

\textsuperscript{3} Prior to the involvement of organizational units preparing their annual budget in 1995, the units’ involvement in the budget process was limited in proposing a budget for an activity before conducting the activity stated in the programs. For the staff, therefore, a budget was always associated with and interpreted in this way.

\textsuperscript{4} The school head usually handled the budget proposal for activities that were conducted under ad-hocracies/committees directly.
head to get approval. Even though the realization was mostly less than the amount asked in the budget proposed, the budget of routine activities was always accepted whereas the budget for non-routine activities might be rejected.

At this stage, a personal relationship played its role in accelerating and influencing the school head’s approval. It was important, for instance, to informally convince the school head about the importance of the activity to be conducted - the importance of the money needed – if the activity was not stated in the annual program. The likelihood that not all amounts of the proposed budget would automatically be approved even though it referred to the annual budget for the case of 1995 and after had necessitated the staff members to rely on personal and direct relations with the school head. In this case, the informal mechanism was more effective than the formal mechanism in the paternalistic environment that was adopted by the school head inside the school.

The pattern of approval therefore influenced the behaviour of unit heads or committee members. The common practice in preparing the budget higher than what was actually needed had defined how members of the school perceived, thought and acted in this environment. Thus, consistent with the idea of Schein (1992, p. 12), this budget culture was invented and developed by the staff out of their experience in dealing with the school head. The staff to get as much funds as possible from the school had used it. On the other hand, the school head perceived that all staff members had the

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5 From October 1995 to 1999, TS’s older brother S headed the school. The real power holder, however, did not change as TS was named as executive officer of the YPP, a new position he created that gave him a power to directly intervene and be involved in the daily supervisory activities of the school.
tendency to inflate the budget so that it was highly likely that the realized budget would always be cut down.

Close personal relations between the school head and certain staff also tended to infringe on the formal disciplinary budget mechanism. It was often that new activities and budgets outside the annual budget were emerged either from the school head or from staff initiatives. The domination of the school head that was intensified by the paternalism adopted made this practice possible and common especially when the initiative came from him. In case where the initiatives came from subordinates/staff members, bargaining and power processes between the two took place. In return for the approval, the subordinates gave their support or at least did not openly criticize the status quo. Personal channeling to the school head, accordingly, was an advantage for both sides.

The staff that did not have direct personal contact or the courage to directly approach the school head personally often persuaded his trusted staff to serve as intermediaries. Given their special relationship to the school head, these trusted staff members might be able to influence the decision. As intermediaries, they played between the school head, as the higher placed person, and the staff who were seeking help and who occasionally became their clients. Flap (1990, p. 229) calls these go-betweens that operate with resources of other persons brokers. As the brokers, they functioned as the school head’s clients and sometimes became the patron of the staff
who needed their intermediary assistance as well – which lengthened the chain of bureaucracy\(^6\) inside the school.

Suwardi, who had held many managerial positions, maintained that this kind of person played an important role in the chain of bureaucracy of the school and became part of the bureaucracy itself regardless of their managerial position. Having direct access to the school head, made them able to bypass the chain of command beyond the formal organizational chart. To a certain degree, the school head also relied on these staff to collect information – a reliance that often influenced the view of the school head in making decisions. In fact, many staff members took advantages of this situation for their own benefits.

This situation, in particular, extensively took place during the time S held the position of the school head. Nico, for example, as S’ special assistant, was believed by the majority of the staff members to have a considerable influence that went beyond his formal status. He was able to exert a major impact on the way S viewed the reality of a given situation. This was done either by filtering staff members that were given access to S or by managing information in a way that highlighted or downplayed the importance of activities elsewhere in the school. This perception was confirmed by S

\(^6\) The term of bureaucracy refers to a role, rules, chain of command, and game and its players (Balle, 1999, p. 193-195). The role relates to a job description established that defines individual’s behaviour within the scope of his/her job. The rules are “the general tool of bureaucracies to set roles and co-ordinate them” in order to “reduce variability and set patterns of behaviour” (Ibid, p. 193). The chain of command that regulates roles and rules is admittedly to produce rules and decisions (Ibid, p.194). The leadership of the school head that emphasized achievement, involved politics and pointed the finger/blame (Ibid, p. 194-195), defined the way in which the game should be played.
himself in many occasions when he repeatedly stated that his trusted staff, Nico\textsuperscript{7}, evaluated all budget proposals prior to their reaching his desk.

The school head, nevertheless, was still within the specific criteria of the decision model using the approval of the budget proposals that emerged from the political bargaining. He was the only person who determined and accordingly knew the strategies to develop the school.

In my experience when I was in the Research Centre and Community Development, whenever I had an idea to be realized into an activity, I simply submitted a proposal including its budget to the school head and discussed it personally with him. The school head somehow told me that the institution had the capability to finance all activities. Thus, I did not need to worry about the money to finance the activity. I do believe that he did those things in accordance with his “grand strategy and plan” that unfortunately nobody knew but him. Therefore, whenever staff members submitted budget proposals asking for money to run their activities, he would approve them if these were in line with his criteria and plan to develop the school. Of course, he did this also on purpose to gain staff loyalty. Consequently, disloyal staff members often had difficulty in obtaining his approval. (Jerry, an ex-secretary of the Research Centre and Community Development)

In line with Meyer’s (1984) idea, the proposed budget ritual was used as an instrumental mode to rationalize a decision that was made by the school head. Conflict and disagreements among staff and the school head regarding the proposal were, consequently, resolved by exploiting the terminology of sustaining school development as the symbolic mode. Instead of promoting efficiency, budgeting, in this case, had become a political device for bargaining by both sides - the school head and the staff. For the school head, it became an important instrument to enhance the staff’s loyalty.

\textsuperscript{7}Nico played an important role for most staff in dealing with S. Suwardi even satirized that to know what S would decide, just asked Nico. For most staff members, convincing Nico, accordingly, was very important if they wanted their budget proposal to get approval from S.
For the staff members, it symbolized managerial support that was given by the school head in the form of access to the financial resources.

Thus, unlike Collier’s (2001, p. 480) study of West Mercia Constabulary in which budgets were delegated and “resulted in a shift in ‘power over’ from Headquarters to divisions”, in the PBS Jakarta, the budget mechanism reinforced the power of the school head over the staff members and organizational units. Decentralizing the budget preparation to the organizational units was symbolic as there was no guarantee that the budget could be realized. Instead of handing his power over financial affairs to the units, the school head used the budget to demonstrate his power to all staff members that he was the only person who had “the final say” about the amount of money that would be allocated to the organizational units or committees.

4. Budget Approval as a Political Deal and Rationalized Myth

The PBS Jakarta had no formal written procedures and documentations regarding financial control mechanisms because the school head directly conducted financial control. There were, in fact, informal practices revealed as common procedures in the budgeting mechanisms that involved a unit or a committee that needed money to execute its activity by proposing the budget; vice-heads that usually supported and endorsed their subordinates’ proposal; the school head that approved the budget; and treasurer that realized the budget based on the school head’s approval. The school head held a decisive authority to accept or reject the proposed budget. If the proposal were
accepted, it would be cashed through the treasurer. It was, then, that the treasurer would deal with all matters regarding the responsibility of the disbursement.  

An approved budget to be realized by the Treasury unit was treated as a “ceiling budget” by the school. When the school head approved the unit or committee’s budget proposal, the most part of the controlling purpose of the expenditure was accomplished. Failing to spend all the money was often seen as an inability of the organizational units or committees to predict their cash flows and to prepare a good budget. This assessment apparently contributed to the common behaviour among staff members to always spend all the money received. Otherwise, according to Sodikun and Listijowati, it was likely that next year’s budget approval would be reduced by the school head.

The approval reflected the individual judgment of the school head about the appropriateness of the money required for all activities. According to Edi Yuwono, when he was in charge as the vice-head of Student Affairs, the bargaining position of staff members who proposed the budget and their position toward the school head – being opponents or supporters - also influenced the head’s approval. After the budget proposal was approved, further control of the use of the money was unnecessary.

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8 After completing the activity, the organizational unit or the committee had to submit a cash outflows report to the treasurer regarding the use of the money. As will be explained later in this chapter, the report was not intended for performance evaluation of the units or committees. However, the treasurer, who was responsible to collect and manage the report, never accepted a report without its transactional evidence. It was important for the YPP that cash outflows reports had to be backed up by their transactional evidence to display that the reports were technically acceptable. In fact, it was common practices as it also occurred at the macro society level that transactional evidence, either internal or external, were subject to manipulation and could be arranged.
Thus, unlike tight budgetary control that evaluates a manager’s performance on his/her ability to attain budgetary objective (Anthony and Govindarajan, 1998, p. 436), the PBS Jakarta placed greater importance on more informal patterns of budget-related communication, simplicity of budgeting system and low participation in the budget-related activities by subordinates/staff members. The Pattern of budget approval often displayed political interactions that took place inside the school and the level of conflict that might occur between the school head as an authorized power holder and the staff members who proposed the budget.

Budget, in that case, reflected the bargaining position between staff members and the school head. It was therefore reflecting the political process in the form of informal negotiation between the two sides that dominated decision-making processes. The budget entailed a connection between accounting information in it and the employment relationship (Hopwood, 1987). Nico described the role of negotiation in the budget approval as follows:

If organizational units intended to perform their activities, they had to propose budget for those activities. Since the money would never be given in accordance with the figures mentioned in the budget, a negotiation process was taking place. The money they received was dependent on the result of negotiation. Personal relations played an important role in the process of negotiation. It was quite often that activities that were not mentioned and nominated in the program and consequently no budget assigned available for those activities emerged and approved by the school head.

The school head utilized the budget approval as an instrument to gain staff’s loyalty and support.\(^9\) Taking Morgan’s (1997, p. 171) idea into consideration, power

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\(^9\) When S held the position of the school head, he clearly stated in front of his vice-heads that he would never approve a budget that was proposed by subordinates whom he branded as opponent to his
that was held by the school head, was built from variety of sources - formal authority and organizational structure; control of funds, decision processes, information, organizational boundaries, informal organization and counter-organizations; rules, and regulations; ability to cope with uncertainty; interpersonal alliances and networks; symbolism and management of meaning; and the power that the school head already had. The budget approval, to a certain degree, reflected the exercise all of these sources of power to create the staff’s dependence on him personally – therefore – enhanced his power.

Despite the political deal, the budget approval had also been used to demonstrate the rationality of the decision that had been made. Borrowing Said’s (1978, p. 6) idea of orientalism into consideration, the perception of Western hegemony within the Indonesian society takes place when most westerners’ managerial concepts and practices have always been placed in a position of superiority. The rationality of the budget within the PBS Jakarta, at a certain point, needed to be seen from this perspective also when the school’s society perceived that all Western accounting concepts and practices were an important symbol of modernization or westernization. The budget mechanism was used to justify the “rationality” of money distribution to organizational units inside the school. Accordingly, myth making of rationality took place when political negotiations between the school head and staff who symbolically used the budget.

authority. This statement was then passed on by the school vice-head of Academic Affairs to all managerial staff members under his coordination in a monthly meeting in which the researcher was part of.
It became a spoken language as “the main symbolic offering of culture” (Bate, 1984, p. 48) that characterized ceremony of the daily managerial practices. The school head used the ceremony in the forms of budgeting discourse to maintain the existing status quo and to exert his cultural point of view of domination. This phenomenon was in line with Handy’s (1978) idea of power and role culture. The power culture was revealed by the concentration and mobilization of power that is described by Hardy (1996) as power over resources, decision-making and meaning in the hands of the school head. This process was backed up by the role culture in the form of a strong leadership style that was demonstrated by the school head.

The organizational interpretive scheme rested on the school head, since, he, himself, was always associated with the PBS Jakarta. A rational action was largely determined by the legitimation of authority in the school that according to Weber “was primarily a matter of locating the actor exercising authority within a preexisting symbolic order” (Richardson and Dowling, 1986, p. 94). Budgeting fulfilled the requirement of the symbolic order in which it was seen as a structure and procedures that were independent from the authority relation and organization.

Such structure and procedures represented a myth of objective criteria of evaluation of the institutional environment (Meyer and Rowan, 1977) and “aura of rational goal-oriented action” (Czarniawska-Joerges and Jacobsson, 1989, p. 32). The head of the PBS Jakarta utilized the myth in order to control access over financial resources as an important means to maintain social cohesion and to reduce staff resistance. Therefore, budgeting was dependent on the power structures in the school
that was dominated by the school head and “negotiation processes” that acknowledged “conflicting values and the distribution of scarce resources” (Rahman and Lawrence, 2001, p. 154). The budgeting, for that reason, is often perceived as “a ritual of reason” (Czarniawska-Joerges and Jacobsson, 1989).

5. Physical Control and Performance Evaluation

Soon after accomplishing an activity, organizational units had to prepare and submit a cash outflows report concerning the use of the received money for the activity to the treasurer as a necessary condition for the school to approve the unit’s next budget. The report had to be accompanied by all its transactional evidence. Otherwise, their next budget proposal would never be processed and realized. The treasurer was vastly concerned with the report because the YPP maintained that the school had to submit a monthly expenditure report whenever the school asked for monthly realization of the school budget. Submitting the report on a timely basis would help the school got the money from the YPP promptly.

The report, consequently, was not intended to measure efficiency or financial performance of organizational units in conducting their activity. Inside the management of the PBS Jakarta, such report demonstrated the conformity of the school head with the institutionalized rules adopted - control systems, policies and procedures - to gain the Perbanas continuing support as the owner of the school. For the YPP, the report actually functioned as a ceremony in front of the owner to realize the school budget proposal. It was because the school head played an important role in authorizing the school budget approval in his capacity as treasurer (1974-1993), as secretary (1993-
1995) and as executive officer (1995-1999) of the YPP. Due to the lack of knowledge in handling higher educational institutions most committee members of the YPP and Perbanas handed their authority over to the school head to manage all financial issues of the school.

Listijowati, an ex treasurer, maintained that the report was not intended to assess financial performance of the organizational units. Rather, it was an important step to fulfill the requirement asked by the YPP in order to get realization of the monthly school budget. Given the fact that the school head had conducted his financial control during the process of approval to the budget realization, it was not surprising that the school head was more concerned with physical than financial considerations in judging subordinates’ performance. To the school head, a responsible staff member was one who successfully completed the activity assigned as mentioned in the program with the given money.

This control process represented symbolic power and symbolic action respectively. As the symbolic power, the physical achievement had systematically been established as a particular set of values among staff by the school head to become the performance discourse in controlling an organizational unit’s activity. According to Alvesson (1996, p. 66) such power “is particularly salient, compared to technical and bureaucratic means of control”. As the symbolic action, it became a part of everyday leadership inside the school in which control rested on the meanings and ideas that the school head wanted and the staff accepted – physical control discourse.
The controlling mechanisms, accordingly, was conducted by moving directly into the “field” to confirm that the activity had been done properly and completed. Sodikun explained his experience in dealing with this issue:

The emphasis on physical control was directed to get an answer to the question of “was the activity done or was there any physical result of the activity?” Such control was more “real” than financial control to speed up the development of the school. Besides, in my experience as vice treasurer, the financial control, in fact, had already been completed after the unit’s budget was realized. The school head, I believe, had considered the efficiency criteria according to his own view before he approved the budget proposal so that he let the practice of marking up of expenditures to take place – common practices that were indirectly endorsed by the school head through his budget approval. He did that because, first, the marking up was still under his tolerable efficiency criteria; and second, he intended to gain staff support. That was the reason that the school head in evaluating the organizational unit’s performance never utilized a variance analysis report that compared actual expenses with the budget.

Steph Subanija, an ex-secretary of the Department of Management, supported this view. He said that the emphasis on physical development apparently made the school head rely heavily on the physical attributes to judge performance. This practice was intentionally adopted in order to distract certain critical staff members from scrutinizing the school’s financial affairs. It was also intended to avoid humiliation of staff members who were involved in the practice of exaggerating expenditures. This understandably strengthened a mutual feeling of a father and children relationship between the school head and the staff members in the paternalistic managerial style adopted. In return, they would likely give their support to the school head to maintain and boost his power.

The emphasis on physical achievements was apparently similar to the UK case of the NHS prior the introduction of accounting reforms that were adopted from private
business sectors. Cash surplus, in the NHS, in which a unit organization “had not spent all of the money it had been allocated … was generally held to be an undesirable outcome” (Mellet and Williams, 1997, p. 274). The most important consideration for the NHS was to maintain the quality of health care services to patients (Jones, 1999). This also took place in the PBS Jakarta in which organizational units had a tendency to spend all the money that had been allocated to the units because failing to do that would likely reduce their next budget realization.

Unlike the NHS in which the idea of profit or cash surplus was absent from its objectives, at the organizational level in the PBS Jakarta, the school head often mentioned this financial discourse verbally in front of staff members. He repeatedly and intentionally announced the cash surplus at least at the end of every semester in front of regular general staff meetings to display his achievement in accumulating funds for the school development despite his physical achievement. However, managerial staff members had little idea about the actual amount of the school’s cash surplus, as internal reports or financial statements were never distributed to them.

The daily managerial practices, in which the school head directly exercised financial control through the budget approval, simultaneously fulfilled two objectives. First, by doing this, the school head could maintain and control cash surplus accumulation. Consequently, the tendency of an organizational unit to disburse all the money received from the school was justified and appropriate because the budget realization meant that the money allocated had already been treated as an expense – an expense that from the school head’s point of view would not jeopardize the annual cash
surplus of the entire organization. Second, it was politically motivated with the intention to control and manage staff behaviour.

Indeed, financial issues were certainly considered in making any decision to the extent that it was related to the approval of budget proposal by the school head as he centrally managed the financial affairs of the school. This consideration took place especially during S’s tenure as the school head. S, who was financially dependent on TS, often asked the treasurer about the availability of cash to finance a proposed activity or to create a new activity that was not mentioned in the annual program in order not to sacrifice important routine activities. Thus, instead of efficiency-oriented measurement of the organizational units, financial consideration was conducted prior to budget realization to maintain cash flows.

A special assistant to S, Nico, described his experience in dealing with this issue:

Under the management of S, all budget proposals from organizational units had to pass through my desk. It was his style that he often approved activities that were not included in the annual program of the school. These new activities could personally come from his initiative or from subordinates that had a close relationship with him. This pattern certainly would put cash flows of the school at risk. This was the reason that before taking any decision, he always asked the treasurer and me about the availability of funds to finance these new activities. If the fund was in short supply and it would be difficult to ask additional fund from the YPP (in fact, the YPP was identical with TS), S would usually postpone the activities or reallocate funds that were supposed to be assigned for other activities. Routine activities, however, would certainly get his approval. Even so, the concern was unchanged in that the emphasis rested on physical rather than financial performance.
Supported by a study that was conducted by Amat et al (1994) in a Spanish company, management discussions within the school and with the school head mostly dealt with non-financial aspects. Financial figures were irrelevant to them and only the school head, his vice-heads and the treasurer were concerned with such issues. Consequently, the school never used the accounting information as an important factor to judge and measure performance of the staff. The school head, to the extent that he was the dominant figure in the organization, defined performance measurements of subordinates by designing physical achievements as the performance indicators. From the institutional perspective, such indicators were institutionally defined as the institutional factors that determined the interests being pursued by the organization (Scott, 1987a), in this case the school head – physical development.

Unlike the unit financial/expenditure report that had to be conducted soon after the unit completed an activity, each organizational unit had to submit a formal report containing its program achievement (physical performance) annually. In the annual managerial meeting, this report would be ceremonially discussed and evaluated. Therefore, the result of the evaluation was neither necessarily used as considerations to improve the following annual program nor to evaluate staff performance. It may be that the school did not even have any standardized reporting formats so that the report varied among the organizational units. The unit’s head created the report format in accordance with what he/she thought appropriate. In general, it usually consisted of information about the name of activity, percent of completion of the activity, and explanatory columns. The following figure depicts an example of the reporting format.
The PBS Jakarta
Unit: Department of Accountancy
Period: July 1992 – June 1993

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of Activity</th>
<th>Completed (Yes/No)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Head of the Department,
(Name and Signature)

Figure 8.1: Organizational Unit’s Physical Report

Even though the emphasis was placed on the physical control, a formal physical report was only submitted annually for the purpose of the annual managerial meeting. It was because the school head informally knew all activities that took place in the school through his daily supervision and direct observation in the field. Verbal reports were highly emphasized. These became routines and institutionalized practices of the dominant reporting discourse in daily managerial control. In the paternalistic managerial environment of the PBS Jakarta, this mode of control effectively enhanced staff performance as it was used to evaluate as well as to stimulate performance. Therefore, the formal physical/activity report was only needed to fulfil the requirement of the formal organizational structure.
6. Financial Statements – a Symbolic Display

Financial accounting practices in the PBS Jakarta were conducted by using a cash-basis rather than an accrual basis. It rested on the mechanism of the budget approval that became the basis for the treasurer to provide money to organizational units or committees. When the units or committees that asked for the money had got it, the treasury would record these cash outflows as expenses. In the same way, all money received - cash inflows - would be recorded as revenues. For the purpose of financial statements that comprised balance sheet, and surplus/earning statement, the cash-basis records were conversed into an accrual basis annually. Therefore, conversion was only conducted for the financial statements purpose.

The adoption of the paternalistic style and bureaucratic-authoritarian regime of the New Order government into the school, served the organizational control system and accounting as formal organizational structures to become myth and ceremony to give legitimacy to the school’s activities. This is in accordance with Meyer’s (1983, p. 235) idea that accounting structures are myths that describe “the organization as bounded and unified, as rational in technology, as well-controlled and as attaining clear purposes”. By formally incorporating the accounting structures as the New Order government did, the school head, as also emphasized by Lapsley (1994, p. 338), might be protected from having his conduct questioned.

An interesting event happened in 1989 when the school head asked the head of the YPP, at that time, to deliver a speech in front of staff members and members of the Perbanas. Before delivering the speech, the head of the YPP clarified that the school
head who arranged all managerial and financial affairs of the school and the YPP had prepared all the material for the speech, including financial figures. Therefore, he emphasized that he stood up in front of them only to read the statement that had been prepared by the school head. This gave a clear signal to the audience that the real power holder in the school and the YPP was the school head. It also demonstrated that accounting information was not entirely accepted as a relevant analytical tool for decision-making (Ahrens, 1996), but as a symbolic mode to justify the school head’s managerial conduct.

Corruption practices in the form of marking up transactions of expenditures had reached an institutional status when such practices became common and widely accepted in the government and state sectors during the New Order era. The nature of the regime - the paternalistic managerial style and a bureaucratic-authoritarian – played a dominant role in the rapid spreading of the practices to all segments of the Indonesian society as acceptable practices. There was almost no alternative for the society except to follow the government way because they had to deal with the corrupt government and state bureaucrats. Therefore, they recognized these practices as an appropriate manner - a reasonable explanation that the practices also took place in the PBS Jakarta as the school head had intentionally brought them into the school. The organizational phenomenon of marking up the transactions of expenditures in the school, therefore, was politically and economically motivated. Taking the idea of Greenwood and Hinings (1996), the phenomenon was also institutionally constituted, and socially accepted.
Under such circumstances, there were concerns among certain staff members about the accuracy and reliability of the financial disclosures that resulted from such transactional evidence regardless of the accounting methods and procedures being used. Steph Subanija and Jerry even expressed their anxiety by saying that the financial statements were merely produced in order to display that the school head was financially responsible. Accounting that had become institutional rules provided a rationalized notion of the modern organizational legitimacy to the management of the school - a business higher education institution that taught the U.S.A. management perspective of accounting as one of its program or core curriculum.

The appointment of an external financial auditor also cast doubt on the role of the auditor in the school. Given the fact that the auditor had a special relationship with the school head and vice head of Finance and General Affairs, it was likely that the auditor played “a symbolic role in demonstrating rational practice (financial audit) in response to institutional pressures” (Dirsmith et al., 2000, p. 519). Gambling called this kind of relationship as a satisfactory long-term relation between the auditor and his/her client (1987, p. 328) in which the auditor always granted an “unqualified opinion” to the audited financial statements.

The financial auditing, therefore, became institutionalized as annual social and managerial processes. This ritual was needed to maintain certainty (Grandlund, 2001, p. 158) and to comply with “assessment criteria originally exterior to the organization”

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10 The auditor was appointed because he was a close friend to the school vice head Finance and General Affairs at the time. Later, the school head replaced the auditor with a new auditor that had a religious relationship with him.
To the extent that financial auditing has become “codified in professional standards” and achieves “symbolic status of demonstrating appropriate behaviour” (Abbot, 1981 as quoted by Dirsmith et al., 2000, p. 518), the auditor’s opinion would likely enhance the school head’s legitimacy. The appointment of the external auditor, in that sense, was overwhelmingly political.

The achievement of the head of the PBS Jakarta in developing the school had convinced most staff members, students and the owner (Perbanas) of his ability to properly manage the school. As far as the legitimacy of the school head relied on the physical achievements – buildings and infrastructures, number of student enrolled and graduated, number of academic staff, library collections and other physical attributes - the audited financial statements, accordingly, became symbolic displays of appropriate conformity (Scott, 1987a, p. 507) to accommodate social expectations of certain staff members, committee members of the YPP and the Perbanas. That was supported by the fact that, at the operational level, there was no strict accountability – loosely coupled internal processes (Meyer and Rowan, 1977, p. 340-341; see also Fogarty, 1992, p. 333) that also accommodated technical demand.

The audited financial statements as a symbolic display were loosely - coupled with the daily working processes in the school in which both were also influenced by one another. Orton and Weick (1990, p. 218) maintain that the social construction of organizational structure is malleable through managerial intervention. The school head of the PBS Jakarta, in line with this idea, deeply intervened in the auditing processes by arranging the transactional evidence that was unlikely to be detected by the auditing

\[11\] In fact, it was the auditor who also prepared the financial statements.
structure. Given the fact that the auditor prepared the school’s financial statements, it was most likely that he was also directly involved in the practices.

Many academic and administrative staff members also questioned the external auditor’s opinion given to the financial statements that were presented by the management of the school. The suspicion cannot be separated from the nature of independent auditor’s report itself that according to Williams, the words “present fairly”:

…is to connote only that generally accepted accounting principles have been applied, are “appropriate,” and yield results within acceptable limits. In this sense fairness merely means that the accountant as auditor has comported himself according to a protocol largely of his own creation (1987, p. 171).

This is in line with Carniawska-Joerges and Jacobsson (1989, p. 32) who maintain that accounting play the ritual of reason role while financial statements as its output represent its symbols. Brunsson (1994, p. 330) calls this phenomenon as politicization when in order to win the respect of its stakeholders, an organization employs “civic values” such as budgeting, financial accounting and auditing. The external auditor of the PBS Jakarta, in this case, occupied a pivotal position in which his “unqualified opinion” legitimized the symbol – financial statements, despite the fact that the auditor’s standard short form report disclaimed the auditor from detecting any financial fraud.
Chapter 8 – PBS Jakarta: Organizational Control System

7. Concluding Remarks

Despite the fact that the budget is often portrayed by the neo-classical economic theory of the firm as providing information for management planning and control (Burns and Scapens, 2000, p. 4), the case of the PBS Jakarta indicates differently. The school head used the budget as an accepted symbol to rationalize the power interaction between various interest groups within the school. As a consequence, it turned into a political arena and a rationalized myth to mediate a political and financial bargaining between both sides - the school head and staff members in the form of budget approval. It also symbolized the “rationality” of relationship between the management of the school and the YPP in which the school head held the dominant power in the school and the YPP at the same time.

Patronage alignments as ostensibly manifested in familial metaphors for the school, had intentionally reduced the role of financial statements to represent a symbol of reason for the school head’s managerial conduct. The alignments made the patron, in this case the school head, serve the needs of staff members and students as his clients in return for their strong support and loyalty. As Suharto of the New Order government who became synonymous with power and authority in Indonesia (Cassing, 2002, p. 97), the school head, by design, turned out to be the sole power holder and authority in the school for years.

Therefore, the role of the budget and accounting, in general, was never intended to be an “emerging dominance of a regime of calculability” (Hooper and Pratt, 1993, p. 250). The school’s planning of cash flows that apparently relied on the budget and
reports of the use of the money, in fact, was also used to symbolize the school head’s compliance with the technical-rational means of modern managerial conduct. The school head’s accountability was akin to Sinclair’s (1995, p. 230) description of personal accountability that was enforced by psychological control in which the Perbanas placed its trust in him. It was also reinforced by organizational culture that placed physical development of the school as performance discourses.
Chapter Nine

Perbanas Business School Jakarta: The Role of Accounting After the Demise of the New Order

1. Introduction

In 1998, President Suharto stepped down from his presidency. This event characterized the end of his domination over the Indonesia’s political and societal life for the thirty-two years since 1967. It was also characterizes the demise of the New Order government from the Indonesia’s political life as a strong commitment to Indonesia’s political system reform from a bureaucratic authoritarian into a democratic political system became the hallmark of the new government. Among the necessary measures that have been successfully conducted after the New Order government era are democratically elected government in 1999, cancellation of Pancasila as the sole ideology for political as well as non-political organizations and amendment of the 1945 Constitution to limit the power of President of Republic Indonesia.

The demise of the New Order government by “people power”, inspired students and many critical staff members - mostly academic staff members in the PBS Jakarta – to demand managerial reform. Because the school head did not give any positive response to the movement, students and academic staff members of the school imitated the way that Indonesian intellectuals and students had expelled President Suharto from power by similarly removing the school head from the PBS Jakarta. Therefore, the end of the school head’s domination in 1999 could not be separated from the societal and
political environment of Indonesia at the time – political and social reforms to end the bureaucratic authoritarian government of the New Order.

Did this political change from the bureaucratic authoritarian to a democratic regime pave the way for the change of the role of accounting in the PBS Jakarta? As corrupt practices, patronage-clientelism networks are built on monopoly and social legitimacy and are integrative and stable (Le Billon, 2003, p. 415 adapting from Johnston, 1986). One among the successes of the New Order regime was to make the networks that for long time periods became the hallmark of the order, be widely institutionalized and accepted by Indonesian society as legitimate practices. As socially accepted values and practices, therefore, it casts doubt on whether political change may be able to alter the patronage-clientelism. If that is the case, in contrast to the political system change, does the role of accounting in the PBS Jakarta remain unchanged too? This chapter discusses the role of accounting in the PBS Jakarta following the demise of the New Order government in which a democratic political system is enthusiastically adopted by the Indonesian society.

2. Managerial Practices

After TS handed over his power in 1999, the spirit of democracy vastly inspired a reevaluation of daily managerial practices in the school. Such spirit has driven the school’s society toward more transparent and democratic managerial values and practices to be adopted in the school as never before. The following discussion will describe the managerial changes that are taking place as result of the macro level changes toward a democratic society of what Indonesians call masyarakat madani
Chapter 9 – PBS Jakarta: The Role of Accounting After the Demise of the New Order

(Usman, 2001) or civil society. The change, as will be explained in the following sections, is not always followed by cultural change. Formal organizational change is taking place without necessarily being followed by behavioural change of the community in the organization. As a result, the formal structures adopted become a symbolic display and ceremony.

2.1. The Awkward Relationship between the PBS Jakarta – the YPP

Inspired by the euphoria of democracy in Indonesia’s political system, the school developed a transparent mechanism to appoint the school head. All academic staff members who fulfil the requirements as mandated by the government regulation are allowed to compete to be the school head. Faisal Basri, the school head after the end of TS’s era in the school, was the first democratically elected school head by the Senate of the school. The Senate appointed Faisal as the school head after he defeated three other candidates in the first democratic election process that was witnessed by most students and staff members of the PBS Jakarta. The mechanism formalized a standard procedure and mechanism to appoint the head of the school.

The end of TS’s era also provided an opportunity for the Perbanas to transform the relationship between management of the school and the YPP. During the period of TS, both the school and the YPP were under his personal control. He was the school head and the treasurer of the YPP. When the government regulation required him to

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1 After the era of TS ended in 1999, the YPP endorsed Faisal Basri who had been appointed by Senate of the school, as the new school head. A widespread dissatisfaction among staff members toward his leadership and policies, forced him to resign in 2003 before finishing his term. The Senate then appointed Tony Trihartanto, and this was endorsed by the YPP, as the head of the school in December 2003. He is the current school head and will hold the position until December 2007. *This study limits the discussion about the management of the school after the New Order period under the leadership of Faisal only.*
give up his position as the school head, he created a new position - Executive Officer of the YPP - that could directly be involved in the daily managerial affairs of the school. In order to create a controlling mechanism to work properly, the Perbanas decided to keep the position of the school head separate from the YPP. In another words, the school head can no longer become a committee member of the YPP at the same time so that the YPP can exercise its function to control the management of the school.

The new school head can only hold his/her position strictly limited for two periods of four years respectively in line with the government regulation PP No. 60/1999. In managing the school, the new school head is responsible to the YPP. Because the school head does not hold any position in the YPP any more, the controlling mechanism of the YPP toward the school is more real than ceremony. Faisal as the school head, for instance, had to convince the YPP to get its support in order to successfully manage the school. Alas, due to lack of knowledge about higher educational institution among its committee members, financial policies of the YPP often altered the school’s development programs. The policies deeply frustrated all school vice heads who handled daily managerial school conduct whenever they dealt with the YPP.

This new relationship caused many tensions in managing the school between both sides. The heavy emphasis of the YPP toward technical-efficiency measurements to be imposed on the school managerial conduct led to the latent conflicts between Faisal and staff members. For example, reasons of efficiency and apparently difficulty in getting funding from the YPP, Faisal sacrificed staff’s welfare expenditures – a
managerial action that immediately boosted dissatisfaction among staff members toward the management of the school. Consequently, the extensive support from staff members he enjoyed from the time when he initially entered the school was dramatically eroded.

Skepticism among the school community, especially in regards to the management of the school (Faisal and his vice-heads) and staff members, and towards the way the YPP handled the school’s monies was also continually escalating. This feeling was apparently stimulated by the shift of power over resources from the school head, in this case Faisal, to the YPP. During the era of TS, he simultaneously controlled the school and the YPP – therefore he also directly controlled the school’s funds to support his managerial conduct and to maintain his power. Consequently, management of the school never had any problem with financial issues.

Faisal personally initiated the transfer of control over the entire school’s funds to the YPP from the school. Jerry, vice head Research, Development and Cooperation \(^2\) under Faisal, confirmed that he was the person, who held responsibility for ensuring such situation occurs. Jerry says:

> It was Faisal himself who intentionally handed all the school’s fund management over to the YPP simply because he did not want to get involved in managing the fund. The decision was taken without any discussion with his vice-heads. So, it was Faisal who certainly created the problem. I think he did not realize that once he handed all the money over to the YPP, he would lose his control over the school management because he was entirely dependent on the compassion of the YPP. As a matter of fact, the YPP since the era of TS had no knowledge in running the educational institution. In could be seen, for instance, that instead of

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\(^2\) This is a new position that was created under the management of Faisal. Under the management of his successor, Tony Trihartanto, this position is maintained.
developing the school, the concern of the YPP was only to increase efficiency and to bring the expenses down.

2.2. Leadership Style and Managerial Tensions

The most important contribution of Faisal as the school head was his ability to create a foundation for formal transparent managerial mechanisms. He, for example, established standard procedures to appoint managerial staff members. To create an equal opportunity, managerial positions were offered to all staff members who could fulfill the requirements and passed the test. Such transparent mechanism was apparently able to reduce, if not eliminate, the practices of nepotism, groups’ relation and paternalism from the school. Therefore, only those who held the needed requirements could occupy the vacant managerial positions.

Alas, in everyday managerial conduct, Faisal, given his background as an outsider, obviously had to rely on certain staff members to collect information. However, unlike TS who did this to create staff loyalty and to boost his power, Faisal was enormously dependent on the staff members on whom he relied. Pre-occupied by his own prejudices toward certain groups of staff members as having a close connection to TS or “trouble makers”, he took sides by only considering information that came from groups whom he considered as his supporters in making any managerial decisions. This situation had stimulated and increased tensions among staff members inside the school and rapidly escalated discontent among the staff members toward his leadership.
He intentionally distanced himself from staff members who outspokenly criticized his managerial conduct and gradually treated them as opponents. He, by coincidence, created an inner circle that consisted of a small number of academic staff members who were able to thrill him. This was cunningly exploited by the school vice heads and many staff members to get closer to him and become his trusted colleagues. Many of the school vice heads that had strongly authoritarian personalities because of mimicking the charismatic qualities of TS’s leadership easily became his trusted colleagues. These persons can be categorized as “inspired and empowered followers (that) produce decidedly negative consequences for the leader” (Washbush and Clements, 1999, p. 147).

Personal and informal approaches increasingly became a dominant managerial mode. Consequently, he became sensitive to critics who addressed his leadership. His intention to expel Rushadi, head of the Department of Management, from the school, for example, was motivated mostly because, as a member of the Senate, Rushadi was an outspoken critic of Faisal. Mounting pressures from academic staff members in the Senate toward Faisal’s conduct had prevented Rushadi from being fired.

Informal procedures were gradually being integrated into formal procedures due to lack of top-down instructions. According to Munro’s (1999, p. 629) study, such practices created “feelings of a lack in communication in the line” and provoked middle and lower level managers to gossip. The circumstances encouraged managers to point to the management of Faisal’s predecessor, in this case TS, as the best practice. The perception was immediately manipulated by the vice school heads to build their own
patron-client relationships. As a result, personal relationships and lobbies dominated decision-making processes – especially for the budget approval purposes. This was different with TS who intentionally constructed informal procedures to create staff loyalty and dependence as necessary means to keep his absolute power in place.

The inability of Faisal to coordinate and control the staff had created a situation of what Acong, the vice-head of Students Affairs under the management of Faisal, named chaotic managerial practices that rapidly reduced his credibility in front of academic and administrative staff members. In this case, Acong points out:

Faisal was managerially weak. As a result, the managerial conduct turned into chaotic and uncoordinated activities. Dissatisfaction among staff members toward Faisal management and leadership, accordingly, became everyday conversation and extensively on the increase. Academic and administrative staff members and students gradually withdrew their support from Faisal as the school head. His credibility in front of the school’s community vanished.

Edi Yuwono shared similar perception by describing Faisal as managerially inconsistent which apparently resulted from his decision to delegate most managerial decisions to his vice-heads. For that reason, he became overwhelmingly dependant on the school vice-heads. The growing rivalry among the vice-heads to be the most influential person in front of the school head, in this case Faisal, could not be separated from his managerial style. For instance, in front of staff members, he often emphasized following formal rules and structures. Practically, he frequently relied on informal and personal relations rather than formal structures in dealing with staff members and handling daily managerial conduct.
In the past, the school head’s domination contributed to the rapid development of the school. The domination made the school head able to control the staff’s behaviour in order to enhance the school’s development. The dominant figures under the management of Faisal, on the other hand, were those who were able to mobilize staff members for their own interests. The condition encouraged tensions among staff members. Faisal had no historical affiliation with the school’s community prior to taking the job of the school head so that most staff members, in most cases, did not have any feeling of sungkan toward him. The staff’s acceptance of his leadership was, accordingly, dependent on his ability to transform the school for the better. For that reason, his leadership failure to bring the school to a better shape directly resulted in an intense challenge from most academic and administrative staff members in which conflict finally became inevitable.

Nicholls maintains:

It is leadership talent that links the individual to the environment through visioning (meta-leadership) and creates enthusiastic followers. It is leadership role (macro leadership) that links the individual to the entity and creates committed members of the organization. It is leadership style (micro leadership) that links the individual to the job/task and creates willing performers. (1987, p. 20)

Faisal had failed to develop his leadership role and leadership style when he was unsuccessful to influence staff members to “do the right things” at the macro level and “doing things right” at the micro level. His inconsistent conduct\(^3\) led to confusion and created conflict among staff members in the daily managerial conduct in the school.

\(^3\) Unlike TS who always came to the office early in the morning, for instance, Faisal was an “easy going” person who never had a routine and exact schedule to come to the office. In contrast, staff members who came late to the office were penalized for undisciplinary conduct.
3. Accounting Discourse – Does Its Role Change?

In line with the change of political environment in the school, accounting apparently became an efficiency discourse. The YPP, subsequent to the period of TS, perceived that the management of S had been excessively inefficient. As an older brother of TS, S exploited the school’s fund to finance his obsession and tended to be out of control. Learning from this experience, the YPP asked the management of the school under Faisal to reduce routine expenditures in order to increase efficiency. The word of efficiency suddenly became an everyday conversation term in the school as Faisal repeatedly mentioned this word in front of all staff members.

Accounting discourse as represented by the word of efficiency was introduced as it was perceived to be “a common language and standardized codes of excellence (that) would reduce and even eliminate subjectivity” (Macintosh and Baker, 2002, p. 194). In monthly staff meetings, for instance, Faisal firmly declared that among the intentions of the school under his management was the reduction of excessive expenditures that had been a hallmark of his predecessor. He intentionally introduced his “belief system”⁴ (Hansen and Kahnweiler, 1997, p. 117) – the efficiency discourse – into the intention of the school’s staff. In return, he promised that as soon as the target of bringing the expenditures down was achieved, staff salaries would be increased – a promise that was never realized until he resigned in July 2003.

⁴ Consistent with his belief system, Faisal lives relatively in modest life style. Therefore, he is known as “a clean person” that never involves in corrupt practices.
3.1. Budgeting Discourse

As part of the managerial reform, the YPP hired an external management consultant to introduce a new budgeting system for the school. Under the new system, each organizational unit has to prepare a unit’s budget based on the unit’s program. The budget, then, is compiled according to its group activities under each school vice head before it was discussed with Faisal in order to get the Senate’s approval. It is the Senate that will discuss the school’s budget with the YPP to get final approval as the official annual budget of the school. According to Wiwik Prihandini, ex an auditor of the school, who was in charge of dealing with the consultant, each organizational unit was assigned financial responsibility as it prepared its own budget – therefore, budget variance reports that compared the budget and actual expenditures would be used to judge the unit’s efficiency performance.

The new system, however, according to Wiwik Prihardini, was declared unsuccessful in 2002. According to Malmi (1997), resistance to a new system may be motivated by economic, political and cultural reasons. Acong argued that the attitude of the YPP toward the budget was the main obstacle for the new system to work properly. He maintained that the imposed budgeting system was politically motivated to place the school under the direct control of the YPP. To support his case, he says:

Despite its rhetorical emphasis on the budget, the YPP often postponed the realization of the budget whenever the management of the school requested. The YPP always cut the budget figures during the meeting with management and the Senate in determining the school’s annual budget. The YPP apparently exercised the budget to reduce inefficient practices in the past without considering the skyrocketing prices due to Indonesia’s economic crisis in the last five years. As a result, the school hardly maintained the services provided to the students and staff. Except
freedom of academic expressions that were suppressed under the management of TS, all other services were in jeopardy – declining and deteriorating.

In the words of Sodikun, the YPP had successfully reduced the expenditures by sacrificing the quality of services provided and welfare of staff members – therefore the new budgeting system imposed was economically motivated. Faisal transferred the remaining school funds under the school’s management to the YPP, which led to a detrimental effect on the management of the school in supporting its operations. The tensions between Faisal and the staff members were inevitable because the system caused a devastating impact on their welfare – therefore the staff resisted it.

Faisal and the YPP had objectives and needed the new system that was different to those experienced at the staff level that represented the school’s culture in which Faisal and the YPP failed to understand. Managerial routines that were dominated by a physical achievement emphasis and personal relationships that had been successfully institutionalized in the school resisted the new budgeting system emphasis. Many studies support this phenomenon that a new system will encounter difficulties because it contradicts the existing culture (see, for example: Markus and Pfeffer, 1983; Scapens, 1994; Malmi, 1997).

The head of the YPP who held absolute power over resources used to enforce their “rational” belief – efficiency discourse - being adopted by the management of the school. This intensified multidimensional conflicts between Faisal and his trusted staff with other staff members. According to Lewis et al (1997, p. 277 quoting from Amason
et al, 1995), there are two types of conflict – “cognitive issue related conflict, beneficial to decision making - and affective conflict, a personalized type of conflict that erodes decision quality”. In the PBS Jakarta, the conflicts were driven by two factors. The first factor was Faisal’s failure to fulfil his promise to increase the welfare of all staff members because of his financial reliance on the YPP. The second factor was poor managerial skill and leadership. The failure almost immediately led to personal conflicts between Faisal and certain academic staff members and among the school vice-heads themselves that eroded the quality of managerial decisions.

The conflicts were intensified whilst formalized budgeting procedures that were implanted in the school were unable to change the school’s budget culture as it was “close to the everyday of life, rather than through rare, formalized procedures” (Cohen, 1982 as quoted by Munro, 1999, p. 622). The staff perceived the existing budget culture as taken for granted. Albeit Faisal had fully delegated all managerial authority to the vice-heads, as in the past, to get an immediate budget realization, for instance, a staff member needed to personally approach the vice-head Finance and General Affairs. Those who were reluctant to deal with such practices often faced difficulty in getting the money from the school. For that reason, Suwardi argued that many decisions that were taken by Faisal and especially those of his vice-heads quite often did not accommodate and reflect the interests of the school’s community. Instead of eliminating the paternalistic behaviour in the school, managerial decentralization had created many new patrons at the school vice-head level.
Endang revealed that budgeting practices that took place under management of TS was at a standstill under the management of Faisal. As in the past, the vice head Finance and General Affairs on behalf of Faisal did not necessarily rely on budget to finance an activity. Therefore, a budget could not automatically get an approval to be realized into money once it was needed. In contrast, it was possible that money was given to an activity that was not mentioned in the annual program of the school – there was no budget available for that activity. Personal and informal relations with the vice school head gave rise to this practice. Budgeting as a formal system, in the daily practice, accordingly, was not the decisive force in the school’s decision-making processes, rather it was determined by “the interplay between a variety of formal and informal mechanisms” (Lindkvist and Llewellyn, 2003, p. 252; see also Munro, 1995).

For the YPP, budgeting activities signified an organizational formal system as “the written procedures and policies that direct behaviour so as to achieve the organization’s goals” (Falkenberg and Herremans, 1995, p. 134), namely efficiency. Alas, the system that was aimed to monitor the agents within an agency relationship, in this case to control management of the school was not accompanied by implementation of rewards criteria and performance appraisal standards. Instead of motivating staff performance, therefore, dissatisfaction was imminent and latent among the staff members toward the YPP and management of the school.

Indeed, management of the school – Faisal and his vice-heads - demonstrated behaviour inconsistent with formally stated goals of efficiency that were introduced by the YPP and made public by Faisal himself to the school’s community. Although the
formal system and procedures of budgeting inside the school were in place, the domination of personal relationships as mode of communication made the budget turn into a political bargaining for the vice-head Finance and General Affairs to gain support from the staff. Unlike the YPP that used the budget strictly as “managerial device for surveillance and control” (Johannessen and Olaisen, 1993, p. 344) of its agents – Faisal and his vice heads, the school’s management frequently relied on informal system – personal relationships - to influence staff behaviour. It coincided with many decisions that were taken by the school vice heads on behalf of Faisal to finance activities that often contradicted the efficiency considerations adopted.

Most staff members also critically questioned the school’s policy to reduce routine expenditures without considering the deterioration of the services provided to the staff and students. Due to Indonesia’s economic crisis that started in 1997, according to Sodikun, the school faced a cash flows deficit for the first time in 1998. Therefore, he argued that the action of the YPP to cut the expenditures down was taken merely because the YPP and Faisal were unable to cope with the high rise in prices as a result of the Indonesia’s economic crisis since the end of 1997 – not because of any efficiency reason.

Edi Yuwono shared similar ideas when he recalls:

I resigned from my position as vice head Student Affairs in 1999. I knew that since 1998, the routine cash flows of the school were in deficit. However, I thought, such deficit was not caused by inefficiency because TS had closely monitored all the school’s monies. It occurred due to the high inflation as a result of the Indonesian economic crisis. In addition, the school could not automatically increase student’s tuition fees due to the economic hardship faced by the students as well.
Under the management of Faisal, all the school’s monies were directly managed by the YPP. In the words of Nico, the secrecy in managing the school’s monies was shifting from the head of the PBS Jakarta to the YPP. It was because, as Steph Subanija argued, “the YPP single handedly managed the school’s monies without any control from the Perbanas or other institutions”. For that reason, there was a growing suspicion among staff members; especially members of the Senate of the school, about the way the YPP managed the school’s monies. Formerly, under the management of TS, the school’s monies were mostly deposited to a bank in which he was involved as a commissioner of the bank.

3.2. Ambiguity of Performance Measurement Practices

From the previous discussion, the YPP had effectively used the budget as “both an enabling device and as a means of achieving hierarchical control” (Scapens and Roberts, 1993, p. 3) toward the management of the PBS Jakarta. The budget, therefore, provided “a discourse for domination structure and legitimacy” (Ibid) to cut the routine expenses because of the cash flow deficits that had the school faced since 1998. Indeed, institutions develop and persist because of “the intervention of interested groups which have different degrees of power” (Abernethy and Chua, 1996, p. 572). Holding and managing all the school’s monies, the YPP became the most powerful interested group among the school’s stakeholders. As a result, it was able to dictate its efficiency discourse to the school’s management because the school was financially dependent on the YPP.
At the school level, however, the situation was different. Despite its function as a tool for managing cash flows, the vice head Finance and General Affairs exercised the budget to create a new patron-client relationship and to get staff support. Due to macro political changes in the direction toward a democratic society, however, she was unable to effectively control staff behaviour. Budget variance reports that were calculated by comparing budget figures and their actual results were prepared monthly. The reports, however, were prepared for the whole activities. No emphasis was given to classify them on the basis of organizational units. The aim was mostly to fulfil the interests of top level management of the school, in this case Faisal and his school vice heads, to demonstrate in front of the YPP that the school budget was properly functioning – therefore they managed the school efficiently.

This was the reason for Jerry to believe that the budget had been used to measure managerial efficiency performance in the school. In fact, budget variance reports were performed at the school level to conform to coercive pressures (DiMaggio and Powell, 1983) from the YPP in which the school’s management was financially dependent. The concern of the YPP was the efficiency measurement of the entire school. Thus, management of the school, according to Sodikun, never prepared the variance reports at organizational unit level because Faisal and all school vice heads never used the budget to evaluate performance of organizational units or staff members. The absence of such assessment demonstrated the ambiguity of management in applying efficiency measurement to evaluate staff performance.

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5 See, Appendix 2
Kumala, head of the YPP, an accountant by education and a banking owner, was obsessed by the idea of accounting as a regime of “economic calculation” (Hopwood, 1987, p. 213) that represented organizational efficiency (Ibid, p. 211) in the form of a routine calculative mechanism (Miller and O’Leary, 1990, p. 3). He actively socialized the term efficiency as an “abstract languages of economic motive and managerial analysis” (Hopwood, 1987, p. 226) into the social awareness of the school’s community. According to Jerry and Acong, Kumala also strictly used the budget to deliver the money to the school in order to control cash flows and to enhance efficiency.

Kumala was extremely obsessed by his success in managing his private banking institution. He repeatedly and proudly asserted in front of managerial staff members that his bank could survive the Indonesian financial crisis in 1997 because it was managed efficiently. He believed that management of the school had to do the same thing in order to survive.\(^6\) For that reason, he introduced management accounting systems through tight budgeting mechanisms as “defining and constituting actual control structures (authority) and processes (information use)” (Dietrich, 2001, p. 5) to the school’s management.

By far, Kumala and the YPP and apparently also Faisal viewed budgetary control process from a “technical-rational perspective” by which accounting and

\(^6\) Staff’s salaries were among the school’s expenditures that Kumala was unhappy with. Aviliani, ex vice head Finance and General Affairs under Faisal who was forced to resign before completing her term, recalled criticism that was always made by Kumala regarding the staff’s salaries. He thought that the salaries were too high. It might explain that during the management of Faisal, the staff’s salaries were never increased while the inflation was skyrocketing. As a result, staff welfare was getting worse. In contrast, Faisal repeatedly promised all staff members that increasing staff’s salaries would follow increasing the school’s efficiency – a promise that was never fulfilled until his resignation.
control systems became “instruments in the service of rationality and efficiency” (Ansari and Bell, 1991, p. 6). The budgetary control process, accordingly, was enormously comparable to what Binberg, et al. described as:

… A simple and rational process where a superior’s set of standards was communicated to a subordinate and subsequently used for performance evaluation and setting the next period’s budget. A superior’s task was then to set that level of standard that would maximize employee output. (1983, p. 116)

According to Mustanwir:

The way Kumala imposed his efficiency discourse to be applied to all activities in the school showed that he did not have any knowledge about managing an educational institution that was basically different from a business institution.

This might have contributed to the failure of the YPP in implementing the system at the school level. Sodikun shared a similar perception by saying:

Efficiency measurement had to be carefully defined if it wanted to be applied into the PBS Jakarta. Most activities related to the educational processes and research activities could not simply be efficiently measured. Therefore, it was not appropriate to evaluate such activities by using efficiency criteria because it would only degrade quality of the activities. Activities that could be efficiently measured were mostly under the control of the school vice head Finance and General Affairs, such as purchasing activities, maintenance, cleaning services, and catering. Treating all activities similarly would only force the management to depart from the budget criteria in practice.

Performance evaluation, at the organizational unit of the school level, was an internal affair of the school in which the YPP apparently refused to intervene. To the YPP, accounting and especially budgeting, as was repeatedly emphasized by the head of the YPP, focused on economic outcomes. The emphasis is in accordance with Armstrong’s (1994) idea that accounting focuses on economic outcomes while
behavioural outcomes are part of the material aspects of power. It was the responsibility of the management of the school to hold the managerial power to change the behaviour of staff. Formal organizational authority gives management, in this case Faisal and his vice heads, the ability to initiate action that leads to enhanced performance of the staff (Markus and Pfeffer, 1983, p. 207).

This created a paradoxical situation when, in reality, under Faisal, the appointment of the organizational unit’s heads and managers were conducted through a formal transparent mechanism while their performance were subjectively judged by Faisal and the school vice heads. To the extent that Faisal was able to formalize control system - procedures and policies and selection processes (Tosi, 1983, p. 272-273) - the daily managerial practices, included staff’s performance measurement, mostly remained unchanged. Budgeting, for the staff members, was simply a mechanism that had to be carried out in order to get money from the vice head Finance and General Affairs in which lobbies and personal relationships dominated the process – so as to have their performance evaluated.

The isomorphism of the New Order cultural and political values and practices – paternalism and clientelism - through coercive, mimetic and normative pressures into the school had achieved its institutional stability or legitimation (Lawrence et al, 2001). According to DiMaggio and Powell (1983), as mentioned in chapter three, once institutionalization has reached the state of legitimation, it becomes stable and taken for granted values and norms by the majority of the staff. These may be changed with the intervention of an actor’s power and disciplinary systems (Townley, 1993). However,
Faisal, in that case, was unable to change the culture and to exert his values into practice because of his incapability to impose the disciplinary systems\textsuperscript{7} and his leadership flaw.

Indeed, according to Sodikun, the YPP had successfully pressured management of the school to increase efficiency - an achievement that was obviously contributed too by all organizational units and staff of the school. Alas, instead of getting a reward – a salary increase as promised, the welfare of the majority staff members was deteriorating under the management of Faisal as were academic processes. As an agent of the YPP, Faisal was morally accountable for his actions. From the dialectical control perspective in which “agency entails the ability to act otherwise, to be able to intervene in the world, or to refrain from intervening” (Macintosh, 1995, p. 304), he was perceived by the majority of staff members as doing nothing to reduce personal relationships as a determinant factor in evaluating their performance.

Steph Subanija described the staff performance measurement that was practiced by the management of the school as follows:

Faisal had successfully shaped freedom of academic expression and activities in the school. However, he failed to fulfil his promise to develop an appropriate controlling mechanism and to deal with all staff members equally. At the beginning, his leadership style was keen to demonstrate his closeness to all staff members. The image, unfortunately, was rapidly tarnished because of his failure to maintain staff welfare and to control the behaviour of the school vice heads. The situation was worsening when he delegated most managerial activities to the school vice heads. Later the school vice heads developed their own patron–client relationships in which staff performance was mostly

\textsuperscript{7}He, himself, intentionally demonstrated his daily disciplinary conduct in front of the staff. He always came late to or quite often was absent from the office; he even often did not attend a meeting when he supposed to lead the meeting. This conduct vastly eroded his leadership legitimacy and made it difficult for him to impose disciplinary actions on the staff.
judged. The difference with TS was that decoupling of the actual practices from the formal procedures had to be done carefully due to strong pressures from the school’s community toward managerial transparency as a result of the political reform that was taking place at the state level.

Therefore, Faisal was unable to develop more explicit and measurable standards of performance as the criteria to evaluate staff performance. By delegating all his daily managerial authority to the vice heads, he strengthened their hands in developing their own power and interests that also reflected his leadership failure to control the school vice heads’ conduct.

4. Accounting and Budgeting: Power and Cultural Interplay

In line with Arwidi and Samuelson’s (1993, p. 95) idea, accounting in the form of budgetary control in the PBS Jakarta after the era of TS played two important roles. First, it displayed that the real power holder that introduced and designed the budgetary control system in the school was the YPP not Faisal as the school head. The YPP clearly demonstrated the role by imposing the budget as financial planning, responsibility controlling and behavioural disciplining to the school’s management. Second, to the participants in the school, it strengthened the managerial culture that was rooted in an informal and paternalistic system of relationships. Such relationships that dominated daily interaction between the school vice heads and managerial as well as academic staff members had decoupled managerial practices from the formal budgeting system adopted.
The YPP used the budget as a power game in order to demonstrate its control over the school’s financial resources. This is in line with Markus and Pfeffer (1983, p. 206) who argue that accounting and control systems, included budgeting system, can increase power because “they are used to change the performance of individuals and the outcomes of organizational processes”. On behalf of the YPP, Kumala repeatedly criticized the school’s emphasis on physical achievement to measure performance. The intention was to replace the physical with a financial indicator – efficiency – as the main criteria to measure performance at the staff and school level.  

The success of Faisal as the school head and accordingly also his school vice heads were closely evaluated and monitored from their efficiency achievements. A budgeting mechanism played the role of measuring such success. Since the YPP entirely controlled the power over financial resources, it could control the management of the school without any difficulty. The budget served as “a disciplinary device” (Carter et al., 2002, p. 522) for the management of the school. Failing to submit the budget in accordance with its timetable would create a significant financial problem for the management of the school because the YPP would refer to the last year’s budget to give monies to the school. It was intended “to monitor the contract through the setting of targets, measurement of outcomes, and allocation of rewards” (Jones and Dugdale, 2001, p. 50).

These became the budgeting norm that represented the rules and requirements to which management of the school had to conform in order to receive financial

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8 The YPP appointed a management consultant from outside to develop a new budgeting system by which efficiency became the sole criterion to evaluate performance. However, the new system was a failure in implementation because most staff suspected that it was used to financially exploit them
support. Norm system, according to Mezias (1990), represents different interests of individuals inside an organization. Instead of accommodating the interests of the school community in the PBS Jakarta, however, the budgeting norm strongly represented the interests of committee members of the YPP\(^9\). Indeed, budget proposals that had been carefully prepared by the school and extensively discussed with the Senate were always tightly reviewed, scrutinized and cut down by the YPP. The school’s management could only voice its intentions while waiting formal approval of the budget - the school’s management was held accountable for its achievement.

The YPP had rhetorically reproduced a budgeting system into the school in order to reduce uncertainty and to enhance efficiency. In fact, it had created problems for management in dealing with the school’s activities. The school vice heads appeared to be using the system more flexibly to cope with the difficulty in getting monies from the YPP. According to Jerry, it was common that monies that had been assigned for certain activities but were reallocated to other activities. The new imposed budgeting standard procedures were consciously modified at the operational level in the school. The discipline of the budgetary procedures was “inappropriate to the circumstances” (Burns and Scapens, 2000, p. 6) and apparently also, according to Sodikun, not suited to the existing culture of the school. Therefore, these might never be mutually acceptable practices in which both sides - the committee members of the YPP and the school’s staff – hardly entrusted each other.

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\(^9\) This might explain the failure of the YPP to apply tight budgetary control at the school level.
Budget interaction in the school was far more complex. Parker (2000, p. 222) asserts “all organizational cultures are unique, yet at the same time they share similar features”. In the PBS Jakarta, the similarity referred to the institutionalization of the Javanese culture in which the school as an institution was seen as a paguyuban. Consequently, the daily working relationships were inspired by the spirit of paternalism in the forms of common identity and close personal relationships. In such an environment, conformity to the budgeting procedures as financial performance criteria was not sufficient to evaluate staff performance. Subordinates had to convince their superior, in this case their school vice head, that they were becoming “a mirror image” (Carter et al., 2002, p. 522) of the superior themselves. This image would pave the way to get closer to the superior – an important step in accelerating and facilitating approval of their proposal.

This indicated that at the school level, trust was placed in persons (Jones, Dugdale, 2001, p. 50) in which superior (school vice heads) decided “who – not whether - to trust … (as) part of a pattern of managerial control” (Armstrong, 1991, p. 13). The budget itself was exercised in conjunction with a personal approach that often was irrelevant to the day-to-day decisions. Many staff members who had a close personal relationship with the vice head Finance and General Affairs, for instance, were involved in activities without any transparent financial responsibility and reporting.

Clearly, competition among the school vice heads to be the most influential person in the school also determined the way the budgeting and accounting were used.

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10 See, chapter five for the discussion of paguyuban.
Steph Subanija enthusiastically commented about managerial blunders made by the vice head Finance and General Affairs:

I remembered the case of money embezzlement involving many staff members close to the vice head of Finance and General Affairs regarding a “car exhibition and bazaar” activity conducted on the campus. In respect of the financial loss, they were never asked to repay the monies they borrowed from the school. Even, when it became hot gossip in the school, those who were involved still held their positions safely. Faisal was apparently reluctant to take any further actions to punish the persons involved because they were all his close staff members. Furthermore, by not taking any action, he intended to protect the vice head Finance and General Affairs. In return, she became strongly loyal to Faisal.

Mustanwir added by giving another example:

When Faisal decided to organize the celebration of the school’s birthday in a five star rating hotel in Ancol beach, most staff members disagreed for the reason that it displayed his inconsistency toward his own policy to increase efficiency. His decision undoubtedly offended most staff feeling. For the reason of efficiency, they had never got salary increase for the last two-year. Besides, in the past, the celebration was always conducted on the campus. Failing to accommodate the majority of staff voices, the celebration was only attended by a small number of staff members. At the end, it was publicly known that the celebration that spent more than one hundred and fifty million rupiah involved the husband of the vice head Finance and General Affairs as the organizer of the event - nepotism.

Faisal failed to develop a formal rewards system to recognize staff performance because he was also unable to create clear performance criteria. The budget mechanism that formally was used to measure the intended performance of efficiency as he always said was politically exercised to develop clientele relationships. Clearly, the school vice heads exercised the budget to build leader/follower relationships that were based on a series of exchanges or implicit bargains between both sides known as a
transactional or compensatory leadership (Larsson and Ronnmark, 1996, p. 34). The relationship between the vice heads and the staff, accordingly, was dominated by compensation, benefit and negotiation.

Apparently, difficulty in getting funding from the YPP also made it impossible for the school’s management to give financial rewards and to increase salaries. The management could actually overcome the problem by exercising an informal reward system that required little or even no money in order to motivate the school staff. As a kind of incentive, Faisal could, for instance, personally praise staff who did a good job, write personal comments and publicly appreciate their good performance and hold meetings to boost the staff’s self-confidence (Graham and Unruh, 1990).

However, management of the school did not have any initiative in bringing such practices into the school. As a leader, Faisal only listened, communicated, recognized and encouraged certain staff members. He lacked “supportive behaviour” that rested on mutual respect and trust (Irgens, 1995, p. 19). It was probably caused by his own perception that he was intellectually higher than others in the school. This perception might psychologically prevent him from exercising such an informal reward system. Rushadi narrated his experience in dealing with Faisal’s intellectual arrogance by saying:

I strongly believed that he always judged others as “idiots”. I could see how he always negatively responded to my ideas whether in Senate meetings or daily managerial activities. To him, most academic staff members did not qualify to be lecturers so that their ideas were mostly “rubbish”. His perception was basically part of the cause for his leadership and managerial failure.
5. Concluding Remarks

Soon after TS handed over his power, the YPP introduced the new budgeting and control system that rested on a technical-efficiency discourse. The system was based on tight budgetary control in which the YPP placed heavy emphasis on meeting the budget; did not accept budget revisions during the year; had “a detailed interest in specific budget line-items”; did not “lightly tolerate deviations from interim budget targets”; and was “intensively engaged in budget-related communications” (Van der Stede, 2001, p. 124; see also, Anthony and Govindarajan, 1998). This turned out to be the mode of a controlling mechanism that was used by the YPP to deal with the management of the school.

However, it contradicted patron-client relationships and physical criterion of performance measurement as the dominant elements of the school’s existing control system. The majority of the staff members regarded the norms that had been institutionally and socially constructed to measure staff performance as reasonable and appropriate. Many staff members suspected the new accountability to be a mode of domination. As a result, it was perceived as an attempt to promote a hegemonic form of control (Willmott, 1993) to serve the interests of the YPP. Lack of cultural support made its implementation in the school problematic. The social awareness of it caused dreadful consequences to the school’s performance in general.

The formal control system adopted was in disarray once it was applied into the school’s daily managerial practices. Organizational reality and cultural continuity that was perceived through “socially constructed images” (Richardson, 1987, p. 347) of
Javanese culture remained in place. The influx of new actors into the school – Kumala from the YPP and Faisal – and the success in adopting transparent mechanisms in appointment of managerial positions, failed to redefine the school’s culture to be more adaptive toward the formal control system. Faisal was unable to rationalize and give meanings to the formal system to which staff members might conform as “the official version of reality” (Ibid). Therefore, the case of PBS Jakarta rejects the cultural functionalist’s (Smircich, 1983) beliefs that organizational culture can be controlled and governed by chief executive officers (see, for example: Peters and Waterman, 1982; Schwartz and Davis, 1981).

Despite its success in increasing the school’s efficiency, the emphasis on formal technical-rational efficiency had produced contrary results that never occurred in the past – deterioration of services and staff welfare. Due to the underlying value and belief structures of the school’s informal control system that rested on personal relationships, the imposed formal control system generated conflicts among the staff to pursue their own interests. The daily managerial conduct became chaotic in which school vice heads built their own patronage relationships. Faisal’s lack of leadership apparently contributed to and deepened the problem as well.

The fact that the existing managerial culture was unchanged made the system alienated from the day-to-day managerial practices. This might explain that the system was never fully accepted and integrated into the school’s decision making processes. In daily managerial processes, for instance, rather than relying on the formal organizational structure – including budgeting/ accounting information, - Faisal and the
school vice heads often relied on personal relationships. The resistance demonstrated the failure of the YPP to consider what Markus and Pfeffer (1983) describe as contextual factors of culture and power distributions in the school. Instead of providing benefits to the school, the tight budgeting based control system reduced the ability of the school to maintain and improve the school’s services and its physical performance. These might be among the reasons for the staff’s lack of interest in the new system.
Chapter Ten

Final Notes

1. Introduction

Examining the institutionalization of the New Order political, cultural and managerial values and practices into the PBS Jakarta is the major purpose of this study in order to gain an understanding of the impact of a broader society – the New Order government – on the role of accounting in the PBS Jakarta. The process of institutionalization, either through mimetic or coercive and normative pressures, coincided with the intention of the school head to build and maintain his power in the school. To the extent that he successfully developed the school and became the sole dominant figure for more than two decades demonstrated the suitability of the values and practices adopted. It was, however, prevalent with conflicts of power and overwhelmingly political (DiMaggio, 1988).

The study is considered within the ethnographic case study research methods. As part of the social world of the case being studied - the PBS Jakarta as an academic and a managerial staff member - makes the researcher able to describe how and why things get done in the way they do. Therefore, the researcher was immersed in the day-to-day lives of the people inside the case. Subjective interpretation was unavoidable, as constructing and understanding meanings needed the researcher’s participation in the process of knowing – reflexive ethnography. Confronting other participants and through document analysis and theoretical framework – an inter-subjective way of thinking - reconfirmed the subjective understanding of the researcher.
Being reflexive and inter-subjective means that despite the ethnographic stance that is used by this study, it requires accommodating three different and occasionally conflicting standpoints in analyzing and explaining data – the researcher’s subjective experiences; other participants’ voices and stories; and theoretical frameworks that exist within the research area. As such, it also uses theories drawing on institutional theory, closure theory of Weber and power mobilization that is developed by Hardy (1996) to link political and societal culture that exist at the macro level of the New Order government to the PBS Jakarta at the organizational level – the school head’s domination and its impact on organizational control systems and accounting.

The ideas of institutional theory have enlightened the structure and the most part of the analysis that shapes the argument of this study. The head of the PBS Jakarta dominated the school by mobilizing power – financial resources, decision making and meanings – and exercising religious groups, nepotism and paternalism based on Javanese culture in the daily managerial conduct. Thus, the domination was undertaken at the formal and informal organizational levels. These aspects that characterized the New Order values and practices were institutionalized in order to maintain his domination. Despite coercive and normative pressures in the forms of government regulative pressures on academic issues, organizational structures and student affairs that supported the domination, in line with the interest of the school head, mostly, the institutionalization was by design mimetic. As will be recalled in the next sections, the values and practices have seriously questioned the appropriateness of the notion of technical-rationality of the traditional organizational control systems and accounting.
2. Mimicking the New Order Managerial Strategies

This study explains many factors that contribute to the successful efforts to concentrate management of the school in one person, namely the school head. Concentration of power in the hands of President Suharto was the core values and practices of the New Order government that brought economic success to the country. Either voluntarily or forcefully, the success had fabricated a general perception among Indonesian society about the appropriateness of the New Order managerial conduct in achieving a successful physical and economic development for Indonesians in general. The following sections will reaffirm managerial strategies and practices adopted that were in accordance with the interests of the school head.

2.1. Centralization of Authority

The first step to concentrate power took place when the school head held important positions in the Perbanas, the YPP and the school altogether since he was involved in managing the school in 1974. The positions made it difficult for controlling mechanism to work properly because he who was supposed to be controlled, occupied an important position in the organization that controlled his managerial conduct. The Perbanas is the owner of the school while the YPP is the owner’s representative to deal with the management of the school and to oversee its functioning. The school head’s important position in the Perbanas and the YPP had ruined the role of the YPP in conducting its controlling function.
In the school, managerial activities constituted the most elusive and yet tempting activities and were centralized under the direct supervision of the school head. The government regulative pressures intensified the centralistic managerial practices when the regulation mandated the school head to officially lead the Senate of the school – a normative and the highest representative body in the higher education institution. Instead of setting the school’s policies and controlling the school’s management, therefore, its role was simply to give legitimacy and to strengthen the position of the school head.

2.2. Harmonious Social Order of Javanese Culture

It was President Suharto of the New Order government who institutionalized the culture into the government and state structures and apparatus to create and maintain harmonious social order in the Indonesian society. It rests on the concept of \textit{rukun} or social order in which consensus becomes the mode of the decision making processes. Such concept implies obedience to superiors and kindness to avoid conflict and create empathy. Monopoly of power by the school head, accordingly, was justifiable within this concept of culture as the \textit{rukun} implies core social values of self-control and avoidance of disapproval.

Under such circumstances, loyalty toward superiors – the school head – gradually transmitted this to be the school’s culture and was highly appreciated. The relationship between the school head and staff members became personal in which they mostly perceived him as a father rather than as a superior. He managed the school as a big family, known as \textit{paguyuban}, and positioned himself as the father to the family in
which all staff members were his children – paternalistic management. In the Javanese cultural perspective, he, as the father, held responsibility to guarantee the welfare of the staff – his children - in return for their loyalty.

Paternalistic management as characterized by familial sentiment and personal relationships dominated the power interplay in the school. Assuring lifelong security to staff members and recruiting the staff through large kinship networks was undertaken to create benevolence-obedience. The pattern would almost certain shape staff obedience to the school head as they were trapped into the incalculable debt of *hutang budi*. Such practices are justified, as Javanese and Indonesians believe that those who are wealthy have to share their prosperity and success with their extended family and friends – the school head performed as a channel to distribute the school’s wealth. Personal loyalties and financial support became the dominant factors that contributed to his success

2.3. Symbolic Formal Structures

Bypassing formal chains of authority and command, accordingly, was common practices because of the school head’s reliance on personal and clientele relationships. Informal structures were dominant while formal structures were seldom implemented in daily managerial activities. Managerial positions in the formal organizational structure were exploited to reward/punish managerial staff by appointing or replacing those who were loyal or disloyal to his leadership. Staff members who held managerial position and were disloyal, in any case, were alienated from the managerial process. The school head bypassed their authority by dealing directly with their subordinates or vice-versa.
Indeed, this would ruin their authority in front of their subordinates – a justification to sack them out of their managerial position.

Staff appointments and evaluation were politically motivated and subjectively conducted, as only the school head knew the criteria. A standard form of evaluation that was introduced and used to evaluate staff’s performance, in that sense, fulfilled a ceremonial function to mask the practices of favoritism. The school’s community was aware that kinships and patronage considerations played an important role in determining promotion and evaluation. The absence of formal performance criteria meant that the process was not conducted in a consistent and transparent way across time, because it was politically driven by the interests of the school head.

2.4. Status Groups Preference

Orchestrating the appointment of incompetent managerial staff from outside his religious group, by design, the school head created a social consciousness concerning the inability of those staff in properly handling a managerial job. The intention was to legitimize his preferences to recruit the majority of managerial staff members from his minority religious group. Undoubtedly, the decision had been to some extent impressive in building solidarity and social actions within his group – therefore preventing opposition from inside the group and maintaining an impression about imminent threat coming from the majority religious groups for his own interest. Viewed as the guardian of his religious group, he had been successful in gaining tremendous support and loyalty from staff members who belonged to his religious group in managing the school.
The majority of private banks member of the Perbanas are Indonesian of Chinese origin. During the New Order era, they were culturally and politically vulnerable. The government, nevertheless, gave them privileged access to do business in which they, then, commonly looked for political protection by associating with politicians, government bureaucrats or military officers. The school head was a politician from the New Order ruling party – Golkar party – and a nephew of an Army General close to President Suharto. Despite his undeniable success in developing the school, apparently, the trust given by the Perbanas in managing the school needs to be seen from this context too.

2.5. Power Mobilization

Despite a Master Plan for Development, known as Rencana Induk Pengembangan that was formally introduced to the school, only the school head knew exactly the school’s development planning. To keep his power in place, he could override and change the plan whenever he wanted and, therefore, maintained the organizational strategic planning in his mind. By doing this, he entirely controlled the school’s decision making process in his hands. At the operational level, bypassing or canceling administrative procedures and political routines were common in order to keep staff out from getting directly involved in any managerial decision making process.

He also controlled the allocation of the school’s financial resources/monies, rewards and sanctions and information. As a result, he was able to modify staff behaviour due to the staff reliance on him in terms of financial support, career and
Chapter 10 – Final Notes

performance. Collecting daily information about the school’s activities through his trusted staff members also resulted in behaviour modification – because he had knowledge to control all staff conduct. This, at first sight, also demonstrated his low trust attitudes toward subordinates and the patron-client relationship that was built on economic motives and personal interests.

Power over meaning was exercised to shape perceptions, cognitions, and preferences of the school’s community to legitimize his power and conduct. It was also used to de-legitimize staff conduct that threatened his authority. Symbolic actions, in these cases, played an important role. As mentioned in chapter six, for instance, he justified the practice of marking up every purchasing transaction on the reason of the benefit and welfare of all staff. It was done by symbolically distributing some of the monies to all the staff annually – in the Javanese culture and Indonesian’s point of view in general, channeling wealth to subordinates was justified.

3. Normative and Coercive Government Regulative Pressures

Institutionalization of the New Order values and practices to the PBS Jakarta also occurred as a result of the government intention to create bureaucratization and standardization that reflected the bureaucratic-authoritarian character of the regime. Hence, some of the regulations and policies that were abusive were in line with the intention of the school head to dominate the school. To deter those who tried to alter the status quo, the school head often superficially intensified the pressures. He repeatedly took advantage of the government regulations and policies to get rid of critiques from staff members and students. For the reason that he held a government

298
mandate to manage the school, the critiques were ultimately also undermining government legitimacy.

When the school had to adopt national curricula imposed by the Ministry of Education and Culture through the Directorate General of Higher Education (DGHE), normative isomorphism took place in the school. Instead of a guideline for minimum requirements of curricula as intended, the mandatory curricula often disadvantaged the school in developing its own curricula. Therefore, decoupling from its formal curricula took place when the school adopted its formal names and structures without necessarily complying with its contents.

In contrast, coercive pressures that were introduced to control student organizations and activities were without difficulty institutionalized into the school. These were in accordance with the interest of the school head to maintain the school’s political stability and his paternalistic managerial style. By fully complying with the government pressures, the school head’s conduct to strictly control the student organizations and activities obtained its legitimacy. Control and culture, in this case, worked hand in hand whilst the government regulations supported the school head’s domination.

4. Organizational Control System Consequences

The daily managerial practices that took place in the school directly influenced its organizational control system. This study identified four phenomena that dominated the existing control system. First, instead of formal authority as depicted in the formal
organizational structure, informal authority as represented by personal relationships became the dominant mode of control system. Second, controlling activities were focused on physical indicators by which staff’s performance was measured. Third, budgeting played its role in strengthening the paternalism, facilitating political deals, and rationalizing decisions that had been taken. Fourth, financial statements were used as a symbolic display of reason.

4.1. Informal Authority: Personal Control

In contrast to paternalism that relies on patron-client relationships, the idea of a formal organizational structure/chart demands non overlapping functional divisions of labour - a hierarchy of coordination and control by which procedures and rules of action ensure formalized and impersonal relationships among its members (Weber, 1978). Paternalism that was embedded within the school’s managerial values, beliefs and practices, and accordingly directed the behaviour of staff members perceived the school head as the only figure they had to obey. The control system in the PBS Jakarta, accordingly, was completely dependent on the school head. As a matter of fact, the paternalism adopted had successfully enhanced social harmony and consensus in the forms of social cohesion, work and workplace commitment that, to some extent, contributed to the dominant role of the school head’s informal and personal control.

The formal organizational structure imposed by the government was adopted without necessarily complying with it. Due, in part, to the paternalism adopted, such structure acted for a symbolic conformity to government pressures toward hierarchical, technical and bureaucratic organizational control and structure. It also became a
symbolic rationality in front of staff, students and other stakeholders. The ability of the school head to determine the destiny of staff members intensified his power to control their conduct. Culturally and politically, therefore, the staff members – given their role as clients to the school head – only acted in accordance with instructions that came from the school head who held authoritative power beyond his formal authority as pointed out in the formal organizational structure.

As patron, the school head held a decisive control over the clients – staff members. In addition, his performance in building the school enhanced the level of trust among the staff toward his leadership that created an extraordinary bargaining position to reinforce his extant personal control pattern. Certainly, the situation weakened the bargaining power of the staff in front of him. The practices that had been deeply institutionalized in the social awareness of the school community, therefore had achieved an institutional status, functioned as “mechanism for cultural transmission and the source of ideological values” (Smith, 2000, p. 40).

Verbal, psychological and physical interactions between the school head and staff members that became routines were highly influential in modifying their behaviour. Two consequences emerged from the practices. First, the behaviour of most of the staff members as guided by meanings ascribed to a particular social situation – to the extent that the school head as the patron knew personally what they were doing. Second, the paternalistic culture that was developed by the school head was intended to foster the staff’s commitment and participation as well as to promote “a hegemonic, insidious form of control that work(ed) by subsuming individual identity and inhibiting

4.2. Physical Discourse – Control and Performance

The central managerial theme of the school development was placed on physical development in the form of accomplishment of a program and its activities. Consequently, a great deal of attention was given to physical rather than financial considerations in controlling activities of staff members. Staff responsibility was measured from their success in carrying out an assigned program within the agreed constraints – schedule of finishing point and financial support.

To the extent that physical attributes were unconditionally established as performance measurement discourses, a control process was directly exercised in the “field” to confirm that the program and activity had been properly completed and transformed into reality. This reflected symbolic action of everyday leadership of the school head in which he asserted his beliefs and values to the school’s community by exercising daily physical inspections as a part of his controlling mechanism. Physical progress and achievement, for that reason, became general discourses and hegemonic structures surrounding controlling activities – including staff performance measurements – and therefore represented the symbolic power of the school head.

The school head’s success, charisma and paternalistic managerial style demonstrated convincing arguments about the central theme of organizational control mechanism to extremely emphasize physical attributes as indicators of managerial
success. Yet, apparently it also fulfilled the school head’s intention to distract certain staff members from scrutinizing the school financial affairs that involved the school head, his family and his cronies. Reliance on physical control made the school head able to display his achievement and maintain staff loyalty by involving staff members – his cronies and clients - in controllable rent-seeking activities.

4.3. Budgeting Interplay

As a consequence of the concentration of authority in the hands of the school head, budgeting activities did not simply fulfil the role of a controlling mechanism. It also functioned as mechanisms to maintain his domination in the school – therefore it was engaged in alteration of the political interplay between the school head and the school’s stakeholders. Regardless of its actual purpose, the budget had been interpreted as a “rational device” for the school head to legitimize his conduct to the owner of the school. It was also exercised to rationalize his decisions in dealing with staff members and students.

No certain guideline was available to determine the appropriateness of budget amounts - the decision was absolutely in the hands of the school head. Accordingly budget preparation was never discussed in managerial meetings involving middle and lower level managerial staff. To the school head, budget approval reflected a maximum amount of money that had been approved to be disbursed by whichever controlling mechanism on which rested. This might be the reason that managerial staff members dealt with a budget merely as a mechanism to get as much monies as needed to finance their activities that had been stated in the school’s annual program. As a matter of fact,
it also normally happened that a new activity that was not mentioned in the formal annual school’s program - hence no budget was available for that activity – was financed by the school providing this was in line with the interests of the school head.

Budget realization was highly politicized since it was part of the strategies to mobilize power over resources that were carried out by the school head to gain support from staff and students. Consistent with many studies in organizational control system (see for example: Ansari and Euske, 1987; Covaleski and Dirsmith, 1988a; Czarniawska-Joerges and Jacobson, 1989; Ansari and Bell, 1991), budgeting and accounting, for that reason, played a rationalizing role for decisions that had already been made – rationalized myth. Implicitly, the budgeting and accounting also strengthened the hegemony of a privileged group in the school – namely school head and his religious group. Indeed, the school’s organizational control system was refined, defined and shaped by political interactions among the school head, staff members, and students and between the school head and owner of the school – Perbanas.

Personal relations and “informal approaches” to the school head dominated the budgeting approval processes. Despite the introduction of a formal budgeting mechanism in 1995 that involved organizational units in preparing their own annual budget, the pattern of budgeting approval was unchanged – therefore the formal disciplinary budget mechanism was likely violated. The school head’s domination was embedded in broader social structure of paternalism that was intentionally supported by most staff members who struggled to be the school head’s closest and trusted staff
members. This state of affairs intensified the role of such relations and approaches and facilitated the decoupling of the budget mechanisms from its formal structure.

In a broader context, Caldas and Wood (1997, p. 571) observe the phenomena as “personalism” when “everything for our friends, nothing for our enemies and for those we don’t know or care about, the law”. This implies that “those without family or friends to call upon have to resort to the law” (Atkinson, 2002, p. 115). In the PBS Jakarta, staff members who did not have any direct personal contact and access to the school head had to rely on the formal mechanisms to get approval for their budget. To speed up the process, they often relied on the certain school head’s trusted staff members who had a direct access to bypass the formal process by influencing the view of the school head prior to his making decisions.

Budgeting, accordingly, performed both a political and financial function of decision making (Olson, 1990). It visualized symbolic requirements for meaning and order that managerial decision making of the school was liable and “rationally justified”. To the extent that the school head manipulated the budgeting approval to maintain his power, it became an important ceremony to reduce potential sources of conflict between the school head and staff members – therefore it was politically motivated. This is in line with Boland and Pondy’s assertion that “accounting is symbolic not literal, vague not precise, value loaded not value free, dealing with meanings not just things” (1983, p. 229). In contrast, the school head’s decision to approve the budget of expenditure was financially motivated when it was treated as the
maximum amount of money that was allowed to be spent. Thus, it was also performed
the role of financial control.

4.4. Symbolic Reason and Myth of Financial Statements

Rent seeking practices that took place in the school provided an impetus to practices of
marking up purchasing transactional evidence. Such practices had been widely
accepted inside the school as most staff members were involved – therefore these were
institutionally shaped and socially acknowledged. Consequently, skepticism became
apparent among the school’s community about the appropriateness of financial
disclosures that were used to provide a rationalized myth and legitimacy to the
management of the school.

The role of appointed external financial auditor was more symbolic than real in
order to demonstrate its “rational and legitimate practice” in response to institutional
pressures – Perbanas and the school’s community. Financial auditing, to the extent that
it was formally needed, engaged in recreation of rituals in annual social and managerial
processes. Unqualified opinion that was always given to the school’s financial
statements supported the legitimacy of the school head that mostly relied on his
physical achievement in developing the school. The opinion became a symbolic display
of conformity in satisfying social expectations of a certain community in the school that
the school’s management accommodated such technical demands.
5. Imposing Technical-Rational Control of Accounting

Domination of the school head in the PBS Jakarta was over in 1999 following the demise of the New Order government from the Indonesian political scene. To avoid practices of nepotism and paternalism, the new school head established a formal transparent mechanism in appointment of managerial staff members. Unfortunately, this was not accompanied by creating transparent and formal mechanisms and criteria to evaluate performance of the staff. The situation paved the way for informal mechanisms – networks of cronyism and paternalism – to take a role in the daily managerial conduct in the school and step by step being integrated into managerial practices again. As in the past, personal and informal relationships gradually dominated managerial activities. The only difference was that the school vice heads became powerful in building their own patronage relationships as the new school head delegated most of his authority to them.

“Resistance to cultural change is rational since change entails the destabilization of relationships and the altering of work behaviour patterns” (Burrack, 1991 as paraphrased by Harris and Metallinos, 2002, p. 203). To the extent that culture has a controlling impact, it rests on “social structure of the society or organization concerned, which can be represented as a combination of the degree of formal structuring of the organization and the degree of social bonding and a sense of family or community” (Hendry and Hope, 1994, p. 405). The new school head was unable to change the culture of paternalism and cronyism that had been embedded in the daily managerial conduct of the school. His hesitation and managerial inconsistencies in which verbally, he maintained his disagreement to such culture, while, practically, he, by coincidence,
accepted the culture in his daily conduct, contributed to the existing organizational reality and cultural continuation.

Unlike in the past, management of the school and the YPP was separated in order to make the controlling mechanism of the YPP toward the school work properly. Shortly, to realize its controlling function, the YPP introduced a new budgeting and control system that was intensely dependent on technical efficiency discourse replacing physical discourse to measure performance. However, it raised doubt among the school’s staff members about the real reason of the YPP due to the fact that accounting is not “a disinterested technical activity, but is one in which various potentially conflicting interests become intertwined” (Scapens and Roberts, 1993, p. 2). Many key staff members suspected that the process of accounting change was an attempt by the YPP to gain absolute control over the school.

The technical-efficiency discourse that was oriented toward a tight budgetary control system was strictly used by the YPP in dealing with the management of the school. As a matter of fact, the school became enormously dependent on the compassion of the YPP to run the daily managerial conduct. The budget had been able to reduce the financial uncertainty – the cash flows deficit that was caused by Indonesia’s economic crisis - faced by the school and enhanced efficiency. The YPP, that fully controlled the school’s financial resources, straightforwardly exerted its budgetary disciplinary device as a performance measurement applied to the school’s management – the new school head and his vice heads. For that reason, the management repeatedly asked all staff members and rhetorically socialized the
efficiency discourse into the school’s social awareness, albeit they practically did otherwise.

At the school level, however, the continuation of the paternalism and cronyism abandoned the efficiency considerations in daily managerial decision making processes. Budgeting approval functioned as a political bargaining for the school vice heads to maintain staff support and to create new patron-client relationships. Informal control mechanisms that in the past rested in the hands of the school head lost its function because the vice school heads competed with each other to hold the decisive power in the school while the new school head was managerially weak and accordingly unable to control their conduct. Given that the YPP only provided monies to the school in accordance with the school’s annual budget, the practices quickly diminished the school’s services and staff welfare. Intensified by the new school head’s lack of leadership, the situation generated open conflict among staff members in search of their own interests. The school’s managerial conduct became so chaotic that it finally led to the resignation of the new school head in 2003.

6. Conclusion

Understanding managerial practices and the role of accounting in the PBS Jakarta cannot be separated from its wider social contexts – the New Order values and practices that constrained and supported the operation of the school. Intensified by the school head’s involvement as New Order political elite and in line with his own interest to dominate the school, managerial processes of the PBS Jakarta were enormously influenced by macro level structures of the New Order government. Contextual
rationalities (Scott, 1995, p. 151) of the school head’s legitimacy that rested on these values and practices were successfully institutionalized and widely accepted by the school society as the appropriate way in dealing with daily managerial conduct of the school since 1974. The end of the school head domination in 1999, for that reason, hardly eliminates the values and practices that had been transforming to become the school culture.

Accordingly, the organizational control system in the PBS Jakarta that rested on physical discourse and personal control of the school head blew apart when it was replaced with a narrow view of a tight budgetary control system based on technical-efficiency and rational discourse. The efforts of the YPP to impose such controlling discourse to the school, unfortunately, created chaotic managerial conduct and degradation of physical performances and services provided by the school. Continuity of the school’s organizational culture had been intensely institutionalized and became routine as “the natural stabilizers of organizational life” (Grandlund, 2001, p. 158). This contradicted the nature of the new system and is a reasonable explanation for the failure of the system to be implemented: the staff members were reluctant to apply it in daily managerial practices.

Ignoring wider socio-cultural, political and institutional contexts that governed the ways organizational control systems in the school operated had brought a devastating setback to the development of the school. The most intriguing question to emerge is the essential role of paternalism and individual domination of the school head in the organizational control system of the school. Personal loyalty to the school head -
apparently flows from family ties, patron-client relationships and a strong father image inherent in Indonesian society – as the decisive control mechanism in the school, was in disarray when the school head resigned from office. It was replaced by the school vice heads who fiercely fought each other to become the new ultimate patron. As a social device, accordingly, the role of accounting and budgeting remained unchanged – cash flow management, political bargaining, symbolic rationality and myth making.
References


References


References


References


References


References


Direktorat Jenderal Pendidikan Tinggi Departement Pendidikan Nasional Republik Indonesia website (Directorate General of Higher Education Department of National Education Republic of Indonesia website). 2002


323


332
References


334


References


339


341


References


References


References


## Appendix 1
Managerial Positions Based on Religious Status Groups 1992

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346
## Appendix 1 – Managerial Position Based on Religious Status Groups 1992

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**Finance and General Administrative Affairs**

**Student Affairs and Alumni**

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**Data Processing Centre**

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**Research Centre and Community Development**

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Note:  
- $y$ → yes  
- $-$ → no
### Appendix 2

**Example of Variance Analysis Report January 2002**

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**Note**: This is a table from the Variance Analysis Report. The columns represent different categories and the rows represent different time periods. Each cell contains the data for that category in that time period.
Appendix 2- Example of Variance Analysis Report.
## Appendix 2: Example of Variance Analysis Report

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<td>100</td>
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Note: Variance is calculated as Actual - Budget. Variance % is calculated as (Variance / Budget) * 100.
## Appendix 2: Example of Variance Analysis Report

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*Note: Non-negative numbers are positive and negative numbers are negative.*
### Appendix 2: Example of Variance Analysis Report

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