

# University of Wollongong - Research Online

## Thesis Collection

Title: The dynamics of financial reporting practice in an Indonesian insurance company: a reflection of Javanese views of an ethical social relationship

Author: Anis Chariri

Year: 2006

Repository DOI:

### Copyright Warning

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site.

You are reminded of the following: This work is copyright. Apart from any use permitted under the Copyright Act 1968, no part of this work may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of the author. Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material.

Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

**Unless otherwise indicated, the views expressed in this thesis are those of the author and do not necessarily represent the views of the University of Wollongong.**

Research Online is the open access repository for the University of Wollongong. For further information contact the UOW Library: [research-pubs@uow.edu.au](mailto:research-pubs@uow.edu.au)

2006

## The dynamics of financial reporting practice in an Indonesian insurance company: a reflection of Javanese views of an ethical social relationship

Anis Chariri  
*University of Wollongong*

Follow this and additional works at: <https://ro.uow.edu.au/theses>

### University of Wollongong

#### Copyright Warning

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site.

You are reminded of the following: This work is copyright. Apart from any use permitted under the Copyright Act 1968, no part of this work may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of the author. Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material.

Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

Unless otherwise indicated, the views expressed in this thesis are those of the author and do not necessarily represent the views of the University of Wollongong.

### Recommended Citation

Chariri, Anis, The dynamics of financial reporting practice in an Indonesian insurance company: a reflection of Javanese views of an ethical social relationship, PhD thesis, School of Accounting and Finance, University of Wollongong, 2006. <http://ro.uow.edu.au/theses/612>

## **NOTE**

This online version of the thesis may have different page formatting and pagination from the paper copy held in the University of Wollongong Library.

## **UNIVERSITY OF WOLLONGONG**

### **COPYRIGHT WARNING**

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site. You are reminded of the following:

Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material. Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

**THE DYNAMICS OF FINANCIAL REPORTING PRACTICE  
IN AN INDONESIAN INSURANCE COMPANY:  
A REFLECTION OF JAVANESE VIEWS ON AN ETHICAL  
SOCIAL RELATIONSHIP**

**A thesis submitted in fulfilment of the requirements  
for the award of the degree**

**PhD in Accounting**

**from**

**UNIVERSITY OF WOLLONGONG**

**by**

**ANIS CHARIRI**

**Drs (UGM, Indonesia, 1991), M.Com (UNSW, Australia, 1996)**

**SCHOOL OF ACCOUNTING AND FINANCE  
2006**

## **CERTIFICATION**

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

Anis Chariri  
26 May 2006

## TABLE OF CONTENTS

|                         |     |
|-------------------------|-----|
| CERTIFICATION .....     | ii  |
| TABLE OF CONTENTS ..... | iii |
| LIST OF FIGURES .....   | ix  |
| ABSTRACT .....          | x   |
| ACKNOWLEDGMENTS .....   | xi  |

### CHAPTER ONE INTRODUCTION

|   |    |
|---|----|
| 1.1 BACKGROUND OF THE STUDY .....                           | 1  |
| 1.1.1 Lack of Convincing Evidence.....                      | 1  |
| 1.1.2 The Need for Further Study .....                      | 6  |
| 1.2 THE REASON FOR A STUDY IN AN INDONESIAN SETTING.....    | 12 |
| 1.2.1 A Lot of Regulations but Weak in Law Enforcement..... | 12 |
| 1.2.2 The Dominance of Javanese Culture.....                | 16 |
| 1.3 RESEARCH PROBLEMS.....                                  | 20 |
| 1.4 RESEARCH OBJECTIVES .....                               | 22 |
| 1.5 SIGNIFICANCE OF STUDY .....                             | 23 |
| 1.6 STRUCTURE OF ANALYSIS .....                             | 24 |

### CHAPTER TWO CURRENT STUDIES ON FINANCIAL REPORTING: POPULAR DOES NOT MEAN PERFECT

|   |    |
|---|----|
| 2.1 INTRODUCTION .....                                      | 27 |
| 2.2 FINANCIAL REPORTING.....                                | 27 |
| 2.2.1 What is Quality Financial Reporting?.....             | 27 |
| 2.2.2 Quality Financial Reporting: Myths and Realities..... | 32 |
| 2.3 EMPIRICAL STUDIES OF FINANCIAL REPORTING.....           | 42 |
| 2.3.1 Focus of Empirical Studies .....                      | 43 |
| 2.3.2 Problems of Empirical Research.....                   | 47 |
| 2.3.2.1 Lack of Convincing Evidence.....                    | 47 |
| 2.3.2.2 Problems with Research Objectives.....              | 49 |
| 2.3.2.3 Confusing Generalisation.....                       | 52 |
| 2.3.3 The Dominance by a Single Theory .....                | 54 |

|   |    |
|---|----|
| 2.4 FINANCIAL REPORTING STUDY: A CULTURAL PERSPECTIVE .....       | 57 |
| 2.4.1 Financial Reporting as a Socially Constructed Reality ..... | 58 |
| 2.4.2 Culture and Financial Reporting Study .....                 | 59 |
| 2.5 CONCLUSION .....  | 66 |

### **CHAPTER THREE**

#### **A QUEST FOR RELEVANT THEORY AS A LENS OF UNDERSTANDING**

|   |     |
|---|-----|
| 3.1 INTRODUCTION .....  | 67  |
| 3.2 INSTITUTIONAL THEORY .....  | 68  |
| 3.2.1 Institutional Theory and Studies on Financial Reporting: a Reason ..... | 72  |
| 3.2.1.1 Accounting is a Socially Constructed Reality .....                    | 73  |
| 3.2.1.2 Flexibility of Institutional Theory .....                             | 77  |
| 3.2.2 The Genesis of Institutional Theory .....                               | 80  |
| 3.2.3 New Institutional Theory .....  | 83  |
| 3.2.3.1 Perspectives of New Institutional Theory .....                        | 84  |
| 3.2.3.2 The Mechanism of Institutionalisation .....                           | 86  |
| 3.2.3.2.1 Coercive Isomorphism .....  | 87  |
| 3.2.3.2.2 Mimetic Isomorphism .....   | 89  |
| 3.2.3.2.3 Normative Isomorphism .....   | 90  |
| 3.2.3.2.4 Reasons for Isomorphism .....                                       | 90  |
| 3.2.4 Organisational Responses to Institutional Pressures .....               | 91  |
| 3.2.5 Institutional Theory: a Critique .....                                  | 95  |
| 3.3 CONCEPT OF POWER .....  | 98  |
| 3.3.1 Power and Organisations: a Review .....                                 | 98  |
| 3.3.2 Different Views of Power .....  | 100 |
| 3.3.3 Leadership and Resistance .....   | 105 |
| 3.3.4 Power Mobilisation .....  | 110 |
| 3.3.4.1 Power of Resources .....  | 111 |
| 3.3.4.2 Power of Decision Making .....  | 112 |
| 3.3.4.3 Power of Meaning (Symbols) .....                                      | 113 |
| 3.3.4.4 Power of Systems .....  | 113 |
| 3.4 CULTURAL AND POLITICAL ENVIRONMENTS: JAVANESE PERSPECTIVE .....           | 116 |
| 3.4.1 Javanese Culture as Dominant Culture .....                              | 116 |
| 3.4.1.1 Two Basic Principles of Javanese Social Life .....                    | 116 |
| 3.4.1.2 Hierarchical System: Figure of “ <i>Bapak</i> ” .....                 | 120 |
| 3.4.1.3 Collectivism: <i>Gotong Royong</i> and <i>Musyawarah</i> .....        | 121 |
| 3.4.2 <i>Jawanisasi</i> : the Institutionalisation of Javanese Culture .....  | 123 |

|  |     |
|--|-----|
| 3.4.3 Power and Leadership: a Javanese View .....  | 127 |
| 3.4.3.1 Javanese Philosophy on Power .....         | 128 |
| 3.4.3.2 Leadership: <i>Tri Pakarti Utama</i> ..... | 131 |
| 3.4 CONCLUSION .....                               | 134 |

#### **CHAPTER FOUR**

##### **INTEGRATED THEORETICAL FRAMEWORK AND RESEARCH APPROACH**

|  |     |
|--|-----|
| 4.1 INTRODUCTION .....   | 137 |
| 4.2 INTEGRATED THEORETICAL FRAMEWORK.....                      | 138 |
| 4.2.1 Legitimacy as a Reason.....                              | 139 |
| 4.2.2 Financial Reporting as a Medium of Legitimacy.....       | 141 |
| 4.2.3 The Role of Ethical Organisational Culture.....          | 143 |
| 4.2.4 The Need for Powerful Actors .....                       | 144 |
| 4.3 RESEARCH METHOD.....                                       | 147 |
| 4.3.1 Research Approach .....                                  | 147 |
| 4.3.2 The Case Study: an Ethnographic Approach. ....           | 150 |
| 4.3.3 Procedures for Maintaining Credibility of Research ..... | 153 |
| 4.3.4 Method of Data Collection.....                           | 156 |
| 4.3.4.1 Participant Observation.....                           | 156 |
| 4.3.4.2 Interview .....  | 157 |
| 4.3.4.3 Examination of Organisational Records. ....            | 157 |
| 4.4 RESEARCH SETTING .....                                     | 158 |
| 4.5 DATA ANALYSIS.....   | 160 |
| 4.5.1 Methods of Data Collection Applied in this Study .....   | 160 |
| 4.5.2 Data Analysis: Interpretation and Triangulation.....     | 163 |
| 4.6 CONCLUSION .....   | 165 |

#### **CHAPTER FIVE**

##### ***PT. ASURANSI BINTANG, Tbk*: A BUSINESS INSPIRED BY THE INDEPENDENCE OF INDONESIA**

|  |     |
|--|-----|
| 5.1 INTRODUCTION .....   | 167 |
| 5.2 THE GENESIS OF <i>BINTANG</i> : A SPIRIT OF INDEPENDENCE ..... | 168 |
| 5.3 ORGANISATION CULTURE: FROM VISION TO BEHAVIOUR .....           | 171 |
| 5.4 ACCOUNTABILITY AND GOVERNANCE STRUCTURE.....                   | 177 |
| 5.4.1 Stakeholders as a Focus of Accountability .....              | 178 |
| 5.4.2 Actors in the Corporate Governance Mechanism .....           | 180 |
| 5.4.2.1 Board of Commissioners.....                                | 180 |
| 5.4.2.2 Board of Directors.....                                    | 184 |



|   |     |
|---|-----|
| 5.4.2.3 Audit Committee .....                                   | 187 |
| 5.4.2.4 Internal Auditors .....                                 | 188 |
| 5.4.2.5 Corporate Secretary .....                               | 190 |
| 5.5 FINANCIAL REPORTING PRACTICE .....                          | 191 |
| 5.5.1 Organisational Structure of the Accounting Division ..... | 191 |
| 5.5.2 Why Produce Quality Financial Reporting? .....            | 196 |
| 5.6 CONCLUSION .....  | 199 |

## **CHAPTER SIX**

### **THE POWER OF THE TALE: FINANCIAL REPORTING AS A RHETORICAL STORY FOR SOCIAL HARMONY**

|  |     |
|--|-----|
| 6.1 INTRODUCTION .....   | 201 |
| 6.2 FINANCIAL REPORTING: FOCUSING ON A PERSPECTIVE .....                   | 202 |
| 6.3 FINANCIAL REPORTING AND SOCIAL HARMONY .....                           | 204 |
| 6.3.1 In Search of Legitimacy .....  | 204 |
| 6.3.2 Financial Reporting and Maintenance of Social Harmony .....          | 210 |
| 6.4 FINANCIAL REPORTING AS A RHETORICAL STORY .....                        | 216 |
| 6.4.1 What is Rhetoric? .....  | 217 |
| 6.4.2 Rhetoric as a Process .....  | 218 |
| 6.4.2.1 Style in Rhetoric .....  | 218 |
| 6.4.2.2. Context in Rhetoric .....   | 220 |
| 6.5 DESCRIPTION OF FINANCIAL REPORTING OF <i>BINTANG</i> .....             | 221 |
| 6.5.1 The First Section of the Annual Report: Building Company Image ..... | 222 |
| 6.5.1.1 The Cover: Discerning the Corporate Message .....                  | 222 |
| 6.5.1.2 Narrative Texts: Looking Beneath the Surface .....                 | 225 |
| 6.5.2 The Second Section: The Statutory Form of a Rhetorical Story .....   | 228 |
| 6.6 RHETORIC AND TRUTH IN ANNUAL REPORTS .....                             | 231 |
| 6.6.1 The Positive Side of Rhetoric in Financial Reporting .....           | 232 |
| 6.6.2 Telling the True Reality of an Organisation .....                    | 235 |
| 6.6.2.1 Historical Performance .....                                       | 238 |
| 6.6.2.2 Insight into the Company's Future .....                            | 244 |
| 6.7 CONCLUSION .....   | 247 |

## **CHAPTER SEVEN**

### **INSTITUTIONS, CULTURE AND SOCIAL CONSTRUCTION OF FINANCIAL REPORTING PRACTICE: A LESSON FROM *BINTANG***

|   |     |
|---|-----|
| 7.1 INTRODUCTION .....                            | 251 |
| 7.2 REGULATORY FRAMEWORK .....                    | 252 |
| 7.2.1 Key Governing Regulations .....             | 253 |
| 7.2.2 Regulations on the Insurance Industry ..... | 257 |

|  |     |
|--|-----|
| 7.2.3 Confusing Regulations and Weak Law Enforcement .....                           | 259 |
| 7.3 ORGANISATIONAL CULTURE OF <i>BINTANG</i> .....                                   | 267 |
| 7.3.1 Beliefs and Values in <i>Bintang</i> .....                                     | 267 |
| 7.3.2 Organisational Culture: a Circuit of Ethical Conduct .....                     | 268 |
| 7.4 SOCIAL CONSTRUCTION OF FINANCIAL REPORTING PRACTICE .....                        | 274 |
| 7.4.1 Financial Reporting Practice in <i>Bintang</i> as a Ritual .....               | 276 |
| 7.4.2 Institutional Isomorphism in Financial Reporting: a <i>Bintang</i> Story ..... | 283 |
| 7.4.2.1 Coercive Isomorphism .....   | 283 |
| 7.4.2.2 Mimetic Isomorphism .....  | 286 |
| 7.4.2.3 Normative Isomorphism .....  | 289 |
| 7.4.3 Organisational Culture and Financial Reporting Practice .....                  | 291 |
| 7.4.3.1 Financial Reporting Practice: a Reflection of Javanese Values .....          | 294 |
| 7.4.3.2 Conservatism: a Lesson From <i>Bintang</i> .....                             | 298 |
| 7.4.3.2.1 Conservatism in <i>Bintang</i> : a Reflection of Javanese Culture ....     | 300 |
| 7.4.3.2.2 Conservatism: Institutionalisation by “ <i>Bapak</i> ”-Father Figure       | 304 |
| 7.5 DECOUPLING: A NOTE TO INSTITUTIONALISM .....                                     | 313 |
| 7.6 CONCLUSION .....   | 314 |

## **CHAPTER EIGHT**

### **POWERFUL ACTORS BEHIND THE SCENE: LEADERSHIP AND POWER MOBILISATION IN FINANCIAL REPORTING PRACTICE**

|  |     |
|--|-----|
| 8.1 INTRODUCTION .....   | 317 |
| 8.2 LEADERSHIP IN <i>BINTANG</i> : WE COPY OUR BOSS’ BEHAVIOUR ..... | 318 |
| 8.2.1 The Role of a Leader in <i>Bintang</i> .....                   | 318 |
| 8.2.2 Leadership as an Exemplary Model .....                         | 323 |
| 8.3 SYMMETRY OF POWER CREATES BALANCE OF CONTROL .....               | 329 |
| 8.3.1 Implementation of Corporate Governance in <i>Bintang</i> ..... | 330 |
| 8.3.2 Transparency: the Most Successful Implementation .....         | 332 |
| 8.3.3 Power Distribution and Effectiveness of Oversight .....        | 334 |
| 8.3.3.1 Board of Commissioners .....                                 | 335 |
| 8.3.3.2 Audit Committee .....  | 339 |
| 8.3.3.3 External Auditor .....                                       | 345 |
| 8.3.3.4 Internal auditor .....                                       | 349 |
| 8.4. POWER MOBILISATION AND FINANCIAL REPORTING .....                | 357 |
| 8.4.1. Power Mobilisation by The Board of Directors (CEO) .....      | 359 |
| 8.4.1.1 Power over Resources and Systems .....                       | 360 |
| 8.4.1.2 Power over Meanings and Decision Making .....                | 361 |
| 8.4.2 Power Mobilisation by Board of Commissioners .....             | 364 |
| 8.4.2.1 Power over System and Meaning .....                          | 364 |

|   |     |
|---|-----|
| 8.4.2.2 Power over Resources and Decision Making .....                  | 366 |
| 8.4.3 Power Mobilisation by Audit Committee and Internal Auditors ..... | 369 |
| 8.4.3.1 Power over Resources and Meaning .....                          | 369 |
| 8.4.3.2 Power over Decision Making .....                                | 371 |
| 8.4.4 Power Mobilisation by External Auditors.....                      | 373 |
| 8.4.4.1 Power over Resources .....                                      | 373 |
| 8.4.4.2 Power over Decision-Making .....                                | 374 |
| 8.5 CONCLUSION .....  | 376 |

## **CHAPTER NINE**

### **CONCLUDING REMARKS**

|   |     |
|---|-----|
| 9.1 INTRODUCTION .....                              | 379 |
| 9.2 CONCLUSION ON THE USE OF MULTIPLE THEORIES..... | 379 |
| 9.3 CONCLUSION ON RESEARCH PROBLEMS .....           | 381 |
| 9.4 LIMITATION OF THE STUDY .....                   | 384 |

|                         |     |
|-------------------------|-----|
| <b>REFERENCES</b> ..... | 387 |
|-------------------------|-----|

|                       |     |
|-----------------------|-----|
| <b>APPENDIX</b> ..... | 431 |
|-----------------------|-----|

## LIST OF FIGURES

|  |     |
|--|-----|
| Figure 4.1 Model of Financial Reporting Practice: Institutional<br>and Political Perspectives..... | 138 |
| Figure 7.1 The Circuit of Organisational Culture of <i>Bintang</i> .....                           | 270 |
| Figure 7.2 A Ritual in Financial Reporting Practice.....   | 278 |

## ABSTRACT

This study is an ethnographic case study conducted in an Indonesian insurance company. The aim of the study is to understand the dynamics of financial reporting practice in the company. Ontologically, this study is built on a belief that financial reporting practice is a socially constructed reality. It is an institutional and political practice. As a socially constructed reality, such a practice involves an interaction among social actors, and between organisational actors and the institutional and cultural environment in which the company operates. The main research question of this study is why and how the company commits to quality financial reporting practice.

This study reveals that the company is committed to quality financial reporting because such reporting can be used to gain legitimacy and to maintain social harmony. The company conducts itself in this way is because it reflects Javanese culture, a dominant culture in Indonesia. Hence, financial reporting can be designed by a powerful actor so as to construct a rhetorical story about the company's actions by claiming that it complies with socially imposed beliefs, norms and values about how the company should act.

Furthermore, this study concludes that the way the actors in the company construct financial reporting practice is influenced by its organisational culture. The organisational culture of the company, which reflects Javanese culture, is able to shape the behaviour of its actors from the top level to lower levels to conduct ethical and transparent business practice. This culture also influences the way the actors respond to external pressures in regard to financial reporting practice.

In addition, this study concludes that the exercise of power and leadership in the company determines the construction of financial reporting practice. The Javanese philosophy of power and leadership has shaped such exercise of power and leadership. Leaders of the company have been able to show themselves as exemplary models for their subordinates (*ing ngarso sung tulodo*), as individuals who are able to empower subordinates (*ing madyo mangun karso*), and have a sense of responsibility to their subordinates (*tut wuri handayani*).

Finally, regardless of how beliefs, values and norms are institutionalised in the company to shape individual's behaviour, to influence the exercise of power and leadership, and then to socially construct financial reporting practice, this study reveals that financial reporting practice of the company is a socially dynamic process. It reflects the Javanese ideas on an ethical social relationship. Financial reporting practice in the company supports a claim that accounting is a social science. It is not value free, but a socially constructed reality.

## ACKNOWLEDGMENTS

This thesis would have been impossible to finish without the insights and helps of dedicated and lovely people.

I would like to thank Kathie Cooper, PhD, my supervisor, for her support, guidance and encouragement in completing my thesis and in giving me the freedom to explore a knowledge of accounting beyond technical issues. I always remember her words which fuelled me to finish my thesis: "I know that it is difficult to get a thesis finished, especially with a family...I have absolute faith in you that you will finish very well".

Thanks are also due to Rector of Diponegoro University, Dean of the Faculty of Economics, my colleagues in the school of Accounting, Diponegoro University and many others too numerous to mention, including those who managed the second batch of the *Technological and Professional Skills and Development Sector Project* (TPSDP) for their support and encouragement. Financial support from the second batch TPSDP, the Ministry of National Education, assisted by ADB Loan 1792-INO, allowed me to study in Australia. Thank you all.

My heartfelt thanks to *Ibu* Ariyanti Suliyanto, the President of the Board of Directors, and to the members of the Board of Directors (*Bpk* Junaedi Mahari and *Bpk* Andy Roestam Moenaf) and people of *PT. Asuransi Bintang Tbk*, especially *Ibu* Titi Widyawati for helping and providing me with "an organisational arena" to understand the dynamics of financial reporting practice. Without their help and contributions, I would not have finished my thesis.

I also would like to thank my late father-in-law, Drs. R. Koestomo and my mother-in-law, Rr. Woro Soepanti, who provided me a place to stay during my field research in Jakarta and who always support me with prayers. I am sorry for neither attending nor sending my wife and children to attend the funeral of my father-in-law who died on 10 October 2005.

My indebted thanks to my late father, H. Mahfudh and my late mother, Hj. Zulaekha who changed me from “a country boy” to a person who loves knowledge and study and who instilled in me a belief that almost anything can be accomplished through hard work, discipline and determination. You are always with me in spirit. Heartfelt thanks are also due to my brothers and sisters (*mas* Tochin, *mas* Tris, *mas* Yudi, *mbak* Dar, *mas* Ali, *mas* Salim and their families), who always encourage me to study with their endless support and prayers. You should be proud of your youngest brother’s work.

Last, but not least, to my wife, Lucky, and my daughters, Salma and Kayla, I have to extend my special gratitude. Without their unconditional support, prayer, patience, sacrifice and love, I would never have finished my thesis. Honey, we all experienced a wonderful and joyful life in Australia despite our limited budget. Working in Australia with different “professions” as a kitchenhand, deep fryer, mushroom picker and research assistant will be our memorable journey and a happy-ending story. To them, all the words I wrote in this thesis are dedicated.