

Ethical Culture and Financial Reporting: Understanding Financial Reporting Practice within Javanese Perspective*

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Abstract

This study is a case study conducted in an Indonesian insurance company. The aim of the study is to understand the dynamics of financial reporting in the company. Ontologically, this study is built on a belief that financial reporting practice is a socially constructed reality. 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 how organisational culture shapes the company on the construction of its 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. 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. Thus, as Hines (1988) claims, this paper concludes that financial reporting practice is a socially constructed reality.

Keywords: *ethical culture, Javanese culture, insurance company, legitimacy, conservatism, financial reporting*

Introduction

Studies of financial reporting, as Mathews and Perera (1993); Ryan, et al. (2002) and Wolk, et al. (2004) note, have proceeded in several directions, such as a decision-usefulness approach (Gilman 1939; Grady 1965; Paton 1922; Paton and Littleton 1940), behavioural

research (for example, Anderson 1979; Anderson and Epstein 1995; Chenhall and Juchau 1977; Lee and Tweedie 1975a; 1975b) and market-based accounting research (for example, Amir and Lev 1996; Botosan 1997; Francis and Schipper 1999; Healy 1985; Healy, et al. 1999; Lev and Ohlson 1982; Lev and Zarowin 1999).

Moreover, studies of financial reporting have been dominated by the positive accounting research paradigm framework, which addresses particular problems to be analysed using mathematical and statistical techniques, and which is aimed at explaining and predicting how self-interested individuals behave when facing economic consequences of particular accounting issues (Holthausen 1990; Watt and Zimmerman 1986). This implies that accounting is seen as representation of “itself, variously, as ‘technical’, ‘neutral’, and ‘value free’” (Munro 1998, p. 201).

However, accounting is no longer seen by some as “a neutral device that merely documents and reports ‘the facts’ of economic activity” but as “a set of practices that affects the type of the world we live in, the type of social reality we inhabit” (Miller 1994, p. 1). Financial reporting practice is influenced not only by economic variables as claimed by the proponents of positive research, but also by institutional, political and cultural environments. It is recognised that the current research in accounting and corporate governance is alert to the fact that actors’ behaviour is modified by procedures, rules, incentives and other economic factors. Most research to date has all but ignored the institutional, political and cultural environment in which financial reporting practice takes place. Consequently, calls for studying financial reporting within its environmental contexts have emerged in accounting literature (Adams 1997; Gray 1988; Rezaee 2002; Miller 1994; Munro 1998).

This study claims that ontologically, financial reporting is a socially constructed reality that can shape, and be shaped by powerful actors and institutional environments. As a socially constructed reality, organisational actors can construct financial reporting so as to gain legitimacy and show that their organisation operates in accordance with socially acceptable beliefs, values and norms. Hurst (1970) argues that one of the functions of accounting, including corporate financial reports, is to legitimate the existence of the corporation. The role of corporate financial reporting is to inform a society that an organisation’s actions are accountable, and that they conform to social values and norms. Thus, this study aims to seek an answer to the following specific question: “how organisational culture influences the company on the construction of its financial reporting practice to deliver messages that the particular company operates in socially accepted beliefs, norms and values”.

Javanese Culture

Discussing Javanese culture is not easy, because it is so diverse and complex. Such a discussion could refer to language, way of life, ethics, performing arts, texts and more. This study focuses on the Javanese culture in terms of world-view, “the Javanese idea of the good life” as studied by Magnis-Suseno (1997). Because of the sheer size of the community, the homogeneity of its culture and their influence on the nation’s capital, Javanese culture influences the way of life of most Indonesians, and the Javanese dominate cultural, business, social and political activities in Indonesia (Mann 1996; Magnis-Suseno 1997).

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The Javanese have a complex code of etiquette and respect, reflected in the Javanese language. However, the maintenance of inner peace and harmony is a priority in social relationships among the Javanese. Indeed, maintenance of social harmony is the core value of Javanese culture (Magnis-Suseno 1997). The social relationship of the Javanese is characterised by two basic principles reflecting their ideas of a good life: conflict avoidance and respect.

Javanese culture is characterised by the avoidance of all form of direct confrontation. Indeed, conflict avoidance plays a crucial role in maintaining social harmony. To avoid conflict, the Javanese are committed to the concept called as "*rukun*", which shows how people should interact in a social relationship. Mulder (1978, p. 39) has described *rukun* as follows:

Rukun is soothing over of differences, cooperation, mutual acceptance, quietness of heart, and harmonious existence. The whole of society should be characterized by the spirit of *rukun*, but whereas its behavioural expression in relation to the supernatural and to superiors is respectful, polite, obedient, and distant, its expression in the community and among one's peers should be '*akrab*' (intimate) as in a family, cozy, and '*kangen*' (full of the feelings of belonging).

Rukun is characterised by cooperation, mutual acceptance, calm and unity (Magnis-Suseno 1997). To achieve *rukun*, individuals should be a part of the group and their individuality should be

expressed through the group. Hence, all obvious expression of conflict that lead to disharmony should be avoided.

Another way to maintain social harmony is the implementation of the principle of respect. According to this principle, the Javanese, both in speech and behaviour, have to demonstrate "proper respect to those with whom one comes into social contact" (Magnis-Suseno 1997, p. 62). Similar to the principle of conflict avoidance, the use of language and gesture reflects how the Javanese extend their respect to other people in accordance with their social status (such as age and structural positions). Hence, individuals should know their positions and duties, and honour and respect those in higher positions, while remaining benevolent towards, and responsible for those in lower positions (Magnis-Suseno 1997).

It is also important to note that a social relationship, there is almost no room for individualism in the Javanese society. In other words, in spite of being individuals, the Javanese prefer collectivism. This view is based on a belief that social harmony can be threatened by individualism, diversity and conflict (Mulder 1994). As far as collectivism is concerned, it is common for the Javanese to "develop networks of acquaintance: workmates, customers, relatives, friends, neighbors and colleagues" (Yudianti and Goodfellow 1997, p. 104).

To exercise collectivism, individuals act both in social and in business activities based on the concept of "*gotong royong*" and "*musyawarah*". "*Gotong royong*" refers to a philosophy that says that people must help each other; whereas "*musyawarah*" refers to the fact that all decisions should be made only after a

consensus or compromise has emerged (Magnis-Suseno 1997). The demand for collectivism that is supported by “*gotong royong*” and “*musyawarah*” is codified in a classical and well-known Javanese proverb: “*Sepi ing pamrih, rame ing gawe, mangayu ayuning bawana*—be disinterested, work hard, perfect the world” (Antlov 1994, p. 77).

Research Approach

This study is based on the understanding that reality exists as a social product and as a result of human interaction, symbolic discourse and creativity (Burrell and Morgan 1979; Denzin 1983; Hopper and Powell 1985; Morgan 1980, 1988; Tomkin and Groves 1983). Furthermore, it assumes that humans are incapable of total objectivity because they are situated in a reality constructed by subjective experience (Berger and Luckmann 1984). Meanings and the search for the truth is possible only through social interactions (Streubert and Carpenter 1999). The inability quantitatively to measure some phenomena has led to intense interest in using other approaches to particularly human phenomena (Nahapiet 1988). Consequently, this study was designed with an interpretive method of inquiry.

This study used *PT. Asuransi Bintang, Tbk* (hereafter *Bintang*)—a publicly listed company, which was the recipient of annual report awards since 1980. The reason for using the company as a research setting is that *Bintang* has been able to show itself as a transparent and accountable company. Annual report awards received by the company since the 1980s are evidence that the company is an example of one who practises good

financial reporting practice in Indonesia, especially in the insurance industry. Finally, the reason *Bintang* was chosen as the research setting was that it has a unique culture influenced by the Javanese views on an ethical social relationship.

Organisational Culture of *Bintang*: a Circuit of Ethical Conduct

In regard to how *Bintang* builds its organisational culture, it can be seen that the words *transparency*, *public accountability*, *conservatism* and *ethical business* become discourses in *Bintang*. Those who join *Bintang* will directly experience and are involved in a conversation concerning these words. Any time and any place at which interaction among employees and between employees and top management takes place the words will be mentioned. This can be interpreted that such words are perceived to be taken-for-granted beliefs and values within this company.

The core values of the company consist of commitment, positive thinking, credibility, acceptance and carrying out of responsibility, prudence in all business decisions, teamwork, understanding and enjoying business ethics, high customer services and innovations. The employees of *Bintang* believe that the core values of *Bintang* are built based on the internal environment, which refers to the daily behaviours of organisational members since the establishment of the company. These core values are then symbolised in the word “MAJU” (meaning “move forward and become superior”), and they cannot be separated from the principle of accountability. To understand this further, it is helpful to note that by describing corporate values, codes of conduct

invite and require an accountability of organisational members to these values (Willmott 1998).

To realise its business philosophy and management of organisational culture, all individuals should act ethically according to the governing regulations and other informal rules. Consequently, the

employees of *Bintang* run the insurance business by obeying all rules and regulations and complying with socially imposed norms for maintaining social harmony. This principle has been accepted as a taken-for-granted belief that guides organisational actors in their daily organisational life.

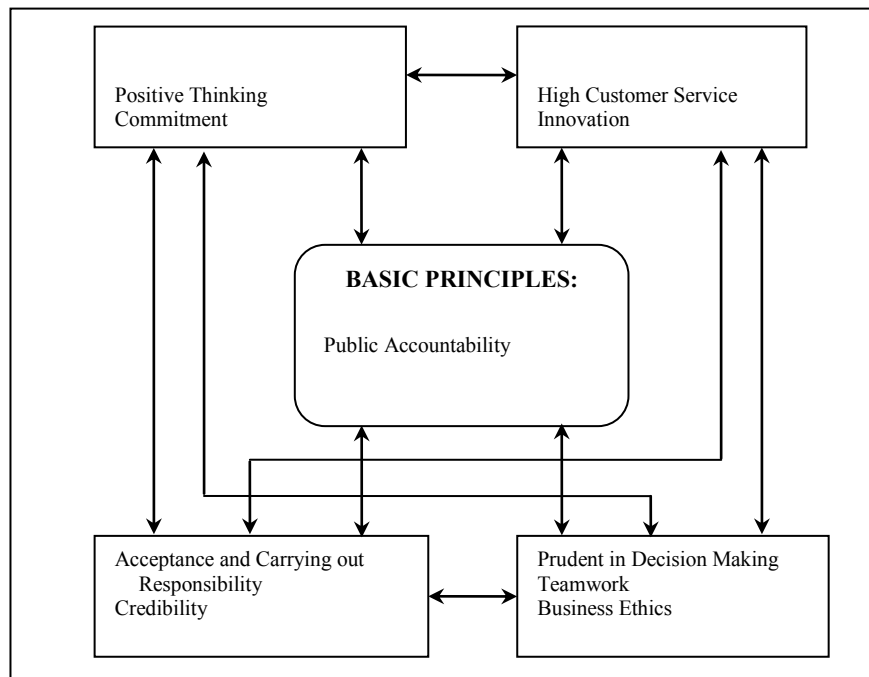


Figure 1: The circuit of organisational culture of *Bintang*

Using the culture paradigm discussed by Schein (2004), the relationship of business philosophy, core values and conservatism can be illustrated as a circuit of organisational culture showing an integrated-ethical value chain that guides organisational actors in conducting business activities (see Figure 1). Considering the circuit of organisational culture of *Bintang*, it can be seen that such a culture reflects Javanese culture, the Javanese idea of an ethical social relationship. This is consistent with a claim by Maclagan (1998, p. 145), who sup-

ports institutional theory, in that

...to survive in the progressively more 'turbulent' social environments, which [are] becoming the norm, organisations would need to adopt and act according to the values that would align them with the expectations of society.

The basic principle of public accountability is identical with the maintenance of social harmony. In this regard, employees of *Bintang* should be publicly

accountable and act in accordance with socially imposed values and norms. According to Branscomb (1995), accountability implies acceptance of responsibility, without which there is no basis on which an injured party can initiate a tort action to redress grievances. Furthermore, public accountability can also be seen as a set of social relations. This is because accountability is a socially constructed reality referring to something that is sensible and meaningful.

Referring to Willmott's (1996) work, the construction of such a sensible and meaningful world involves people that lead to the practice of accepted accountability. Moreover, Pollit (2003) and Romzek and Dubnick (1998) argue that public accountability refers to a social relationship in which an actor feels an obligation to explain publicly and justify their conduct to various significant people. These arguments support a claim that public accountability used by *Bintang*, as a business philosophy, reflects the core value of Javanese culture, the maintenance of social harmony.

Conservatism, in the language used by the people of *Bintang*, means total obedience to any governing regulations and compliance with socially imposed values. This view is consistent with Tannsjo (1990, p. 10), who contends that "...conservative attitude is the attitude of one disposed to preserve well-established existing institutions because they exist". By being conservative, *Bintang* wants to respect regulators and any socially acceptable values and avoid a conflict with regulators and the community. Consequently, it can be inferred that this concept reflects the principles of conflict avoidance and respect.

In addition, the case of *Bintang* signifies that organisational culture is not embedded naturally in an organisation. Instead, it is transmitted deliberately into an organisation. Organisational culture is not a static phenomenon. Schein (1995, pp. 225–226) argues that the basic process of embedding and transmitting a cultural element is a "teaching process" through the use of a number of mechanisms, such as

...formal statements of organizational philosophy, charters, creeds, material used for recruitments and selection, and socialisation...explicit reward and status system and promotion criteria; stories, legends, myths, and parables about the key people and events...

This means that organisation culture can shape and be shaped by organisational actors. Indeed, organisational culture can influence any organisational activity and practice, including financial reporting practice. For this, Schein (2004, p.1) argues that:

...culture is both a dynamic phenomenon that surrounds us at all time, being constantly enacted and created by our interactions with others and shaped by leadership behaviour, and a set of structures, routines, rules, and norms that guide and constrain behaviour.

In the case of *Bintang*, it can be seen that most personnel in *Bintang* believe that organisational culture plays an important role in shaping quality financial reporting practice. For example, even though the President of the Board of Directors

and Director of Financial Services do not directly say that there is a relationship between culture and quality financial reports, they claim that only those who understand *Bintang* are able to assess such a relationship. The President of the Board of Directors said that

I do not really know whether the financial report is a reflection of organisational culture. For example, we could see that some insurance companies provided a high figure in revenues. But we did not know how the company got the revenues. Bintang always implements business ethics. But do other companies consider ethical aspects in their business? I do not think so, because we can see how business in Indonesia is... a legal activity is okay, illegal ones are up to you. We are committed to ethical business. Only the "market players" and those who are concerned with Bintang are able to assess whether our financial report is a reflection of our organisational culture.

A similar view was held by the Director of Financial Services, who stated that:

...Financial reports also reflect our culture, although it is not easy for users to directly understand the relationship between organisational culture and the reports.

A convincing argument of the existence such a relationship can be seen from a statement by new employee (Mr C), who previously worked at a famous audit firm in Indonesia (Deloitte). He insisted

that:

...*Bintang* got an annual report award. I think that it was reasonable. We have an ethical culture and our culture greatly influences the quality of our financial reports.

Bintang has a unique culture that influences employees not only in the Division of Accounting, but also in other divisions to behave ethically when carrying out their jobs. A statement by one of the accounting staff explained how such a culture shapes behaviour of individuals. He (Mr A) pointed out that:

I think numbers or data contained in financial statements reflect the moral values or a culture of our company, especially in the Accounting Division. I did not really know what was going on in other divisions. But, I believe they [other divisions] have implemented the same values.

This ethical culture has been institutionalised by both the founders and the Board of Directors, who continuously remind individuals in *Bintang* of the importance of being conservative in conducting business. Another employee in the Accounting Division (Mr D) remarked that:

I believe that the reason why we got annual report awards was that we had honest leaders. They never manipulate accounting data. That is our culture...conservative.

This statement is consistent with a view expressed by the Director of Administration Services, who is also a minority shareholder and a son of a founder. He said that:

The quality of financial reports is mainly determined by ethical conduct of those who prepare the reports. If you are used to running a business ethically, you will automatically provide the correct information about the company's activities.

Similarly, Mr E, who is responsible for preparing the financial reports stated that

there is no a surprise in the annual report awards. With or without the annual report awards we are always committed to quality financial reporting practice. Our financial reports are just like that

The head of the Internal Audit Unit has an interesting view concerning the relationship between organisational culture and financial reporting practice. He justified his statements as follows:

We have no crucial changes in financial reports. The insurance industry has standardised financial statements. We always obey regulations. But it should be noted that regulations are only a guide. We have no choice except to comply with the regulations. You should know that the format of financial statements is the same as another insurance company. What makes it different is the output of financial reporting practice. Output needs

process and process is greatly influenced by the corporate culture. We always attach a voluntary explanation of any items that we consider important for users to know. This is part of our commitment to transparent reporting. We always try to disclose any information as transparently as possible.

His subordinates also supported the statement. For example Mr B said that "Bintang has produced transparent financial reports. It is very transparent indeed. This happens because of our culture"

An example of the influence of organisational culture on financial reporting practice can also be seen from the statement by the Director of Financial Services:

We made a significant change in the current annual report [2002]. We changed the way we calculated the unearned premium account. There is a regulation determining how to calculate this account, but we are used to calculating the account more conservatively. It is more prudent if we talk about the insurance business. The point is that we include commission as a deduction of unearned premium. I apply a conservative approach for maintaining the company's solvency.

Financial reporting practice in *Bintang* shows that there is a strong relationship between organisational culture and quality financial reporting. This implies that a company with an ethical culture will

more likely be committed to quality financial reporting practice than companies with unethical cultures. This is consistent with claims of such relationships in the accounting literature (Adams and Kuasirikun 2000; Geriesh 2003; Lewis and Unerman 1999).

Studies of fraudulent financial reporting practice also demonstrated that financial reporting fraud is shaped by a set of ethical values reflected by dishonest management, personality anomalies, lies and crookedness (Loebbecke, et al. (1989), and a poor organisational culture (Merchant 1987). A poor organisational culture, according to Merchant (1987), is a culture typified by a lack of moral principles, guidance and leadership; as well as no internal rules, policies and procedures. Adams (2002) remarks that culture reflects moral values, which one would expect in turn to influence at least the issues on which companies perceive as worthy of annual reports.

The story of *Bintang* provides a real and interesting portrait of a relationship between an organisational culture and financial reporting practice. Different from financial reporting practices of other companies, the financial reporting practice in *Bintang* reflects a local culture—Javanese culture—that shapes not only individual behaviour but also its organisational culture.

Financial Reporting Practice: a Reflection of Javanese Values

The financial reporting practice of *Bintang* is constructed as a rhetorical story to gain legitimacy and maintain social harmony. The reason that the company conducts such practices in this way is

because it reflects Javanese culture. To maintain social harmony, individuals should be members of a group and should work within the framework of *gotong royong* and *musyawarah*. These Javanese values can also be seen in *Bintang*.

The organisational reality of *Bintang* indicates that success is a collective achievement under the guidance of its management. In line with the concept *gotong royong* (cooperation), the establishment of executive committees in *Bintang* can be seen as an example of cooperation. Even though such committees are not mainly found in the Accounting Division, several employees in the Accounting Division are also members of the committees. Consequently, the committees play (consciously or unconsciously) roles in constructing financial reporting practice. For example the Director of Financial Services said that:

...the committees are actually intended to build better control. However, since the establishment of committees has been part of a trend in implementing the practice of good corporate governance, we decided to make some executive committees. On these committees we decide *everything together*. (emphasis added.)

Similarly, the Director of Administration Services pointed out that:

...we...establish and utilise committees for the purpose of showing that we make a collective decision. Directors do not make their own decisions. We try to

develop *collectivism*. (emphasis added.)

This view is also consistent with that of the manager, who is responsible for underwriting policies. He said:

The executive committee is intended to ensure that crucial decisions are not determined by a single person. The use of a team in the decision-making process will lead to a better decision. As far as I know the committees have run well and *togetherness* in teamwork is part of our culture. (emphasis added.)

In addition, in the 2001 annual report of *Bintang*, the Chairman of the Board of Commissioners expressed his feelings in regard to the importance of helping each other (*gotong royong*). He said (p. 15):

Finally, we also extend our deep appreciation to shareholders, all employees of *PT. Asuransi Bintang*, *Tbk* agents and business partners, and all financial authorities that have contributed to the success of *PT. Asuransi Bintang*, *Tbk* and we hope that this cooperation can be further extended in the forthcoming years.

Moreover, an example of *musyawarah* can be seen from a discussion held by the Audit Committee of *Bintang* regarding changes in the calculation of the estimated unearned premium. On 24 March 2003 the Audit Committee and the Board of Directors held a meeting with an external auditor to discuss the final draft of the annual report. In this meeting they discussed issues concerning compliance with regulations, a proposal

for improving an internal control system, an audit report draft, and accounting policies and disclosures in the 2002 annual report.

A long discussion concerned an accounting treatment and necessary disclosure in regard to changes in the calculation of the estimated unearned premium. The external auditor believed that changes in the calculation of the unearned premium should be classified as a change in estimation, rather than a change in an accounting method.

According to the Director of Financial Services, a change in the calculation that made the estimated unearned premium was Rp. 12 billion lower than that of the previous calculation, which was intended to fulfil the requirement of Decree of the Minister of Finance No. 481/KMK017/1999¹, and was not intended to increase the company profit. Such a change is not against the law. Indeed, the President of the Board of Directors argued that such a change is allowed by the authoritative body and said:

I personally discussed this issue [changes in the calculation of the estimated unearned premium] with the regulator [the Department of Finance] and also wrote a letter to the regulator. It is not a problem. We still use 40 per cent in the calculation. The difference is only in the basis of calculation. Previously we calculated 40 per cent of the net premium and now we calculate 40 per cent of the net premium

¹ This decree is replaced by the Decree Number 424/KMK.06/2003, which requests insurance companies to achieve the level of solvency at 75 per cent, 100 per cent, 120 per cent by the end of 2002, 2003 and 2004 respectively.

after a deduction of a net commission.

Furthermore, in the meeting, one of audit committee members asked a question of the external auditor regarding the changes. She said:

What do you think about this change? Is this an estimation change or a change in an accounting method? If this change is concerned with an accounting change, there should be disclosure of why the auditor agrees with the change. Restatement on the 2001 financial statements should also be done for the change.

In reply to the question the external auditor argued that:

This is an estimation change because there are only two calculation methods of the estimated unearned premium: the aggregate method and the daily basis method. The change is only concerned with the basis of calculation. We have internally discussed this change with other auditors. I believe that the change is more related to an estimation change, rather than a change in accounting method.

After discussing this change, a compromise was finally made and the Chairman of the Audit Committee suggested that the auditor should clearly express such a change in the 2002 annual report that it is legally allowed and still complies with regulations, especially the decree of the Minister of Finance No. 481/KMK.017/1999. As a result of the dis-

cussion, the external auditor disclosed the changes in the notes to the 2002 financial statement (note 2h) as follows:

In 2001, the estimated unearned premium is computed based on the aggregate percentage method at the rate of 40 per cent of the net premium. Effective from 2002, the company adopts the aggregate percentage method of 40 per cent of the net premium after a deduction of a net commission. The change in the computation still meets the Decree of the Ministry of Finance No. 481/KMK.017/1999 dated 7 October 1999 and the Letter of the Insurance Director, the Directorate General of Finance Institutions, Number S4212/LK/2000 dated 23 August 2000. If the 2002 estimated unearned premium is computed based on the aggregate percentage method of the net premium without a deduction of net commission, the unearned premium will increase by Rp 12,403,893,000. The change in the estimated unearned premiums computation was made in order for the company to still comply with the ratio of investment to technical reserve and claim payable as required by the Decree of the Ministry of Finance.

This example shows how *musyawarah* guides individuals in *Bintang* to make a collective decision. The importance of *musyawarah* is also supported by the Director of Financial Services, who argued that:

...before a final draft of financial statements is signed, the external auditor reviews the draft and sometimes we have a conflict with the auditor, for example, about the use of a certain terminology of information being disclosed in annual reports. We usually overcome this conflict by making a *compromise*. (emphasis added.)

The above narratives illustrated how *gotong royong* and *musyawarah* influence financial reporting practice in *Bintang*. Clearly, maintaining social harmony is the ultimate purpose of publishing quality annual reports. This supports the view expressed by MacLagan (1998, p. 141) that "...organizations are seen as adapting to a set of norms in the social environment, and gaining legitimacy".

Conservatism: a Lesson From *Bintang*

In accounting literature, conservatism is concerned with procedures adopted by an accountant when facing uncertainties. It is unquestionable that conservatism holds an extremely important place in the ethos of accounting (Wolk, et al. 2004). Conservatism guides accountants to make decisions based on logic and evidence that will lead to the fairest presentation of financial statements. According to conservatism, when accountants are facing uncertainty as to which accounting procedures or methods to apply, they tend to choose the procedures that will be least likely to overstate assets or income.

However, within *Bintang*'s context, the word conservatism has a broader meaning than that generally accepted in accounting literature. In *Bintang*, conser-

vatism is applied not only in financial reporting practice, but also in all aspects of organisational life. This argument is based on the fact that for *Bintang*, conservatism is more than just choosing a procedure. Rather, it conveys an ideology, values and beliefs. Consequently, *Bintang* views conservatism in the same way as is commonly used in politics.

In politics, conservatism might be seen as a philosophy or ideology supporting the importance of traditional values or established social order. Thus to quote Tannsjo (1990, p. 4):

...the conservative attitude...is characterized by two central tenets...(1) that whatever exists as a well established fact ought to continue to exist and (2) that the reason why it ought to continue to exist is that it is well established.

It should be noted that for proponents of conservatism, tradition does not merely mean customs or habits, but consists of standards and institutions that are perceived to be a guide to promote a well-ordered life (Jost, et al. 2003; Kirk 2001). Therefore, the orientation of a conservative attitude is to maintain order and stability and to adhere to pre-existing social norms.

In light of conservatism, orientation to values plays an important role in shaping the behaviour of employees. In this regard, a conservative attitude derives values from traditions and judges the world around the individuals to be organised by the standards they trust (Jost, et al. 2003). In addition, they do not simply preserve traditional or established values, but ensure that a society is socially

ordered according to its values (Muller 2001; Stone 1994).

To keep tradition alive, for example, in an organisational context, conservatives pass it down from generation to generation, from superiors to subordinates, who embody the conservative attitude of the organisation. In other words, to maintain a conservative attitude a leader must be able to institutionalise the attitude in an organisation's life. The following section describes how conservatism is embedded in financial reporting practice in *Bintang*.

Conservatism in *Bintang*: a Reflection of Javanese Culture

The concept of conservatism applied in *Bintang* is similar to that used in politics. Thus, for *Bintang* to be conservative, its staff must be able to conduct ethical business and obey regulations and any socially acceptable norms and values for the purpose of maintaining stability and order in Indonesian society. *Bintang* has employed conservatism since the establishment of the company. The reason for this is that *Bintang* was established not simply to raise profits, but to improve the welfare of Indonesian society. This can be seen from a statement by the charismatic founder, Mr Soedarpo Sastrosatomo in the 2004 Management Annual Meeting of *Bintang*. He said:

Bintang not only raises money, but also utilises our independence so that we can fight in our own country. We have a holy spirit. The founders then have institutionalised the holy spirit in *Bintang*, to enable its organisational members to utilise our

independence and to improve the prosperity of our society.

This statement implies that the improvement of social wealth is more important than profit maximisation. Thus, conducting ethical business is the only way to achieve such an objective. In so doing, *Bintang* always obeys all regulations and operates in accordance with socially acceptable values. This has been accepted as a tradition of *Bintang* in dealing with insurance business and external pressures.

Conservative attitude in *Bintang* is also confirmed by Mr A in the Accounting Division, who said:

From its establishment *Bintang* always complies with all regulations promulgated by authorised bodies. This is why *Bintang* is well known as a conservative company. This is part of our culture...

This statement is supported by Mr G, the manager who is responsible for underwriting policies. He maintained that *Bintang* is committed to obeying regulations. He said that "*Bintang* is very conservative in implementing regulations. *Bintang* has continuously kept obeying any regulations".

Such statements indicate that in *Bintang*, as discussed before, the conservative attitude has been accepted as a taken-for-granted belief that guides its employees in conducting business. A statement by Mr B, a senior internal auditor, illustrates this view:

As far as I know, *Bintang* is conservative in conducting busi-

ness. With or without formal rules we tend to conduct ourselves ethically...I think since the establishment of *Bintang*, we have run the business conservatively. The founders of this company always remind us about the importance of being honest, ethical and fair in doing business. I am proud of working here. Even though *Bintang* is a small company, it always runs an ethical business.

In addition, being conservative does not mean static. Instead, such an attitude has driven *Bintang* to be responsive to external pressures. An active response to new regulations is an example of *Bintang*'s flexibility, even though the Indonesian business environment has been surrounded by unethical business and corrupt government. In this regard, it is interesting to note what employees of *Bintang* said about conservatism and external pressures. For example, Mr H believed that:

Although *Bintang* is conservative, this company is very flexible in responding to changes in the business environment...Management always complies with regulations. If a new regulation is issued, *Bintang* usually establishes a team to discuss whether the regulation only affects the head office or influences both the head office and branch offices. Thus, we can anticipate the consequences of any regulations.

This statement is supported by Mr B, who contended that:

We are very flexible in respond-

ing to environmental changes...Thus, being conservative does not mean we neglect the changes in the business environment. We also adopt new concepts introduced by professional accounting bodies, as long as the concepts are consistent with our culture.

Another claim showing the commitment of *Bintang* to be conservative can be seen from a statement by the Director of Administration Services. He said:

In line with the flexibility of *Bintang* to respond to environmental changes, I think *Bintang* employs a conservative approach. This is a positive policy because currently we have tight regulations. However, these tight regulations are not a major problem for *Bintang*, as the conservative approach has led *Bintang* to keep obeying the regulations. It is true that the tight regulations have made insurance business more difficult. But for *Bintang*, because of the conservative approach, to implement the tight regulations is not as difficult as for other insurance companies. Indeed, many insurance companies collapsed because of the regulations. Thus, I believe that conservatism is good for supporting the implementation of regulations...However, as *Bintang* is used to obeying the rules and never conducts unethical business activities, sometimes the conservative approach makes it difficult for *Bintang* to compete with other insurance companies.

We know that we might be able to conduct business like other companies, such as illegally reducing the customer's premiums, which result in getting customers. But we do not want to do that...

Such quotations showed that “the organization and the management of work involve moral matters and ethical dilemmas from top to bottom from beginning to end” (Watson 1998, p. 253). The reason that organisational members of *Bintang* conduct ethical business can be related to a view by Blanchard and Peale (1988, p. 7) who wrote that:

...ethical behaviour is related to self-esteem...that people who feel good about themselves have what it takes to withstand outside pressures and to do what is right rather than do what is merely expedient, popular, or lucrative... that a strong code of morality in any business is the first step toward its success...that ethical managers are winning managers.

What has been practised in *Bintang* also illustrates that the company has tried to judge the business environment to be well ordered by the values that *Bintang* trusts, as Jost, et al. (2003) describe. This implies that *Bintang* obeys regulations to ensure that there is social order and stability of society according to its values. This view is actually a reflection of Javanese culture. Indeed, for *Bintang*, maintenance of social harmony is the most important thing in conducting business, including financial reporting practice. To achieve this *Bintang* has implemented the philosophy “*sepi ing pamrih*,

rame ing gawe, mangayu ayuning bawana” —be disinterested, work hard, perfect the world (Antlov 1994, p. 77).

Obedience to regulations shows that *Bintang* wants to avoid unnecessary conflicts and respect those who issue the regulations. To quote Jost, et al. (2003, p.340), “conservative ideologies—like virtually all other belief systems—are adopted in part because they satisfy some psychological needs”. Moreover, the case of *Bintang* shows that:

...accounting is intimately implicated in the construction of facilitation of the contexts in which it operates. It cannot be extracted from its environment like an individual organism from its habitat...Accounting as a social institution is shaped by culture to present and explain certain phenomena concerning economic transactions. As a social institution, accounting is integrated into customs, values, norms, beliefs accepted in a society. Thus accounting cannot be isolated and analysed as practice that is free from culture. The existence of accounting is determined by culture, customs, norms, and institutions (Hopwood, et al. 1994, p. 228; original emphasis).

Based on such reasons, the case of *Bintang* also signifies that its organisational actors have constructed the company as a part of a wider social community. Thus, “individuals in both an organisation and a society should behave so as to achieve forms of self-actualisation that leads to social harmony” (Legge 1998, p. 159).

The Financial reporting practice of *Bintang* shows that quality financial reporting is determined by an ethical culture. For *Bintang*, it is not economic factors that drive quality financial reporting; rather it is a reality that is socially constructed by actors in the organisation.

Conclusion and Limitation

The case of *Bintang* shows that organisational culture plays an important role in shaping the behaviour of organisational members. The organisational culture of *Bintang* is built on the bases of public accountability, conservatism and transparency, and is able to shape the behaviour of its actors from the top to lower levels to conduct ethical and transparent business practice. Through the adoption of Javanese culture, organisational members of *Bintang* have behaved ethically so as to maintain social harmony both among organisational members, and between organisational members and its institutional environment.

The case of *Bintang* also shows that quality financial reporting practice is strongly influenced by the organisational culture of the company. It is true that regulations affect financial reporting practice. However, compliance with regulations is determined by organisational culture. Thus a company with an ethical culture will more likely be committed to compliance with regulation and to quality financial reporting practice. Taken-for-granted beliefs have shaped the behaviour of *Bintang* organisational members and have driven the company to commit to ethical culture. This ethical culture has also shaped its financial reporting practice.

To sum up, regardless of how beliefs, values and norms are institutionalised in *Bintang* to shape individuals' behaviour, and to socially construct financial reporting practice, this study concluded that the financial reporting practice of *Bintang* is a socially dynamic process. It is a socially constructed reality involving an interplay between individual, social values and organisations. Indeed, in the case of *Bintang*, it can be seen that financial reporting practice reflects the Javanese ideas on an ethical social relationship. Financial reporting practice in *Bintang* shows that accounting is a social science. It is value laden.

Despite its rich and thick description of the case chosen for this study, it is worthwhile noting a number of limitations. First, the findings of this study are constrained by a single company with a focus on the insurance industry, and are also constrained by a relatively short data collection period (six months), during which there were no new regulations or pressure during data collection that might influence the company. Possibly, a more complete and comprehensive analysis of institutional, political, and cultural change is needed.

Second, even though this study was undertaken by prolonged engagement in the organisational setting, and by using a triangulation approach in collecting data and interpreting research findings, this study may have suffered from a subjective bias, especially in interpreting data or facts. Meanings, symbols, and facts gathered and discussed in this study were translated by the researcher without endorsement by an impartial third party. Thus, it is possible that meanings, symbols, and facts are misinterpreted

unintentionally. Nevertheless, this should not be a crucial problem because no research approach is free from a subjective bias, whatever research paradigm is used. In fact, interpreting and reporting research findings is a matter of rhetoric of how the researcher uses argumentation and logic to persuade an audience.

Thirdly, the field study was performed successfully because of the authority of the President of the Board of Directors. Unfortunately, such authority could lead to a problem. As other ethnographic field studies, this study might be suffered from problems of data credibility. Even though people being interviewed had freedom to express their views and their names were not included in this report, it is possible that they might provide information about the company in favourable tones. This, of course, could result in subjective findings that might not reflect the true description of phenomena being studied. However, because this study was performed using a triangulation approach in collecting data (documentation, participant observation and interview), misleading information could be minimised.

Finally, considering limitations of this study, further studies involving different companies from different industries are needed. In order to examine the consistency of research findings, such studies should be still directed toward answering questions of whether companies with ethical organisational cultures always commit to quality financial reporting practice, does ethical leadership always drive a company to commit to such practice, and does "local culture" influence financial reporting practice of a company?

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