The Effect of Corruption on Accounting Information: An Institutional Theory Perspectives

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Abstract
Though corruption has been declared as an extra ordinary crime, little discussion and research is done on the effect of corruption to financial accounting information. This paper explains how corruption that had been taken for granted as acceptable practices by society in Indonesia during the New Order Government degraded the role of financial accounting information to become a symbolic rationality rather than reflected the managerial performance of an organization. Using institutional theory, this paper demonstrated that authoritarian and corrupt government that had been succesfully brought Indonesia into economic success was seen by most Indonesians as an acceptable practices in doing business. Mimetic isomorphism was taking place in the case PBS Jakarta when head of the school intentionally adopted the New Order corrupt practices into the school as the practices were inline with the interest of the head himself. As a result, financial statements as a symbolic display were loosely - coupled with the daily working processes in the school.

Keywords: Indonesia, ethnography, symbolic display, isomorphism, corruption, financial accounting information

1. Introduction
The economic success of the New Order Government of Indonesia that ruled the country from 1966 to 1998 had 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 at that time – individually or institutionally – except to follow the New Order’s way.

The institutionalization of the New Order’s 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 successful of the order in
bringing the country into economic prosperity had additionally inspired the society to model the
government managerial style.

This paper addresses the process of institutionalization of the macro societal level of
values and practices of the New Order government of Indonesia under the President Suharto into
the micro organizational level of the Perbanas Business School (PBS) Jakarta and its impact on
accounting used in the school. 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, isomorphism\(^2\), either forcefully or voluntarily, became inevitable. It will
be shown 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 inline with the
interests of the head of the school.

There is a tendency that organizations operate within a given domains to become
structurally and practically similar that lead 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? Does the adoption had impacts on the way how financial
accounting information used in the school?

2. Research Method

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 from 1987 till now as managerial as well
academic staff member. Therefore, it can be categorized as an ethnographic case study. As
mentioned by Hammersley and Atkinson (1995), this role can be classified as total immersion
and “going native”. The researcher’s own biography shaped the research so that audiences can
more fully understand the researcher’s interpretation of text data. The research process is taking
place in its real-world setting since face to face interactions took place in everyday working
activities that did not involve an artificial intervention to determine the result.

The study was undertaken in an overt way to avoid ethical problems (Vinten, 1994)
during the data collection. Since it was taking place in everyday working activities, close and
continuous interaction between the researcher and the case being studied inevitably influence and
structure research process and its outcomes. This natural subjectivity, definitely, will shape the
research (Marshall and Rossman, 1995) as the strength of this 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.

To reconfirm researcher’s understanding about the case, interviews were done to other
participants – administrative and managerial staff members. The interviews were carried from

\(^2\) DiMaggio and Powell (1983, p.147) maintain 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.
January 2009 to June 2009. To reconstruct participant stories about life in their work, the interviews were mostly unstructured, informal and conventional in the form of a normal everyday conversation while they were doing their jobs. The sample selection represented different hierarchical levels and backgrounds of managers that held the position during the period of 1987 to 1999 as the period of study and most of them still hold those managerial positions up till now.

The interviews were analyzed individually and manually. Tracing voices through individual interview transcripts to maintain the differences and contextual situation that existed among respondents was carried out during the analysis. This is conducted to avoid data analysis simply confirming what the researcher already knows (Doucet and Mauthner, 2001).

Documents and archives were used as well (Yin, 1994; Tellis, 1997) to enrich data collected from interviews and subjective experience of the researcher. The data used ranges from administrative documents to financial statements. The use of documents is important to support and supplement evidence from other sources (Yin, 1994). In case the documentary evidence contradicts others, further examination into the topic is needed.

3. **The New Order Government of Indonesia and Corruption**

Corruption is commonly defined as the abuse of public power for private benefits (Sandholtz and Koetzle, 2000; Tanzi, 1999). 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). Despite the difficulty of measuring corruption in which it is culturally contextual<sup>3</sup>, corruption will be measured differently as people in different cultural settings respond to corrupt political practices (Anderson and Tverdova, 2003). The corruption discussed in this paper adopts the formula designed by Klitgaard (1988) that \( \text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Accountability} \).

The nature of the New Order Government of Indonesia that ruled the country from 1966 to 1998 was centralized in the hands of President Suharto. It was him who had opened up the domination of the politico-bureaucrats within the state and state corporatism that 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 intentionally institutionalized and incorporated inside the state and government bureaucracy. 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).

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

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<sup>3</sup> 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.
have to be guided from above” (Vatikiotis, 1994). 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).

Power had been personalized on Suharto at the expense of institutionalized controlling mechanism or any formal separation of powers within the state (Vatikiotis, 1994), therefore it contributed to the diffusion of corruption in the government officials, politicians and society. This power allowed Suharto without problems 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).

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; 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) 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).

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 – state corporate sector and their manager - 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. The largest indigenous business groups were owned by the members of the Suharto family that included his children, grandson, and relatives. Integrating power of politico-bureaucrat with Chinese and international capital⁴, the groups mostly developed by collecting “minority shareholdings in the major Chinese corporate groups” (Robison, 1986) 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 (Backman, 1999).

Despite its corruption practices, the Suharto regime had delivered economic progress that, in part, had basically formed the backbone of the New Order legitimacy (Uhlin, 1997; 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.

4. Institutionalization of the New Order Way into the PBS Jakarta

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 and its economic success in which there were not many alternatives for most Indonesians at that time – individually or institutionally – except to follow the New Order’s way. It is in this context that the institutionalization of the New Order’s values and practices into Indonesian society and organizations was unavoidable. The successful in bringing the country into economic prosperity combined with repressiveness of the government over society inspired the society to model the government managerial style.

It was also in this context that the head of the PBS Jakarta – as the case of this study – consciously adopted the order’s values and practices inside the school. There is a tendency that organizations operate within a given domains to become structurally and practically similar that lead 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.

4.1. Background

⁴The 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).
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 used in this study) Jakarta in 1985.

AIP as a new education institution soon faced difficulty in attracting new students. Due to constant decline in student enrollment and to rescue the institution, on 11 October 1974 the Foundation (YPP) decided to reshuffle the personnel of the board by appointing new entrants into its board membership.

One of the new entrants was Thomas Soeyatno (TS) who later became the most influential person within the PBS Jakarta for more than 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. It was TS also who transformed the AIP to become PBS in 1985 in which he was the first head of the PBS until 1999.

4.2. Concentration of Power

The PBS Jakarta adopted from the New Order government the concentration of power model and the patron-client relationship 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 members were recruited in order to fulfill managerial positions that required them especially for academic staff and managerial positions related to academic matters. Many academic staff members 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 keeping them in their managerial position. It was dangerous to place these

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5 At the time, the student enrolled sharply dropped from 100 to become only 28 students (Bina Informasi Pendidikan, 1996).
6 TS resigned as head of the PBS Jakarta in 1995 because the Government Regulation No. 3/1988 concerning higher education institution ruled that 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 No. 30/1990 and No. 60/1999. To keep his power in the school, he created and held a new position in the YPP – namely executive officer of the YPP (1995-1999) that can directly intervened in the day to day managerial affairs of the school.
staff outside the management since they had the capacity to mobilize people. Otherwise, they would simply be sacked from their positions.

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 the staff members 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).

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. For non-routine activities, 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. Once the head had successfully been persuaded about the importance of the proposed activities, 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 – Soehardi (S)\(^7\) 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.

A staff who had been in the school since 1983 believed that the school head intentionally adopted the President 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 (Wahyudi, 2007; 2009). 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” (Wahyudi, 2007).

\(^7\)S was holding the position of Vice Head for Students’ Affairs under TS management. He held the position as head of the school after TS resigned in 1995 until 1999.
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 staff members 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.

4.3. Rent-Seeking and Corrupt Practices

As the New Order Government, 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”. 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. Most staff believed 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) in which people inside the school tolerated and even were involved into 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 give 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. 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 about the trustworthiness of transactional evidences given that marking up the cost of the transactions had been widely accepted in doing business inside the school8. 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.

5. Mimetic Isomorphism9

8 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”.

9 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.
Institutionalization of the New Order cultural and political values and practices in the PBS Jakarta was in line with personal interests of the school head. Following Suharto, incorporating his personal interests into the school was 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.

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 the bankruptcy when its student numbers constantly declined. The same situation was approximately faced by President Suharto when he inherited the 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 – in this case is the New Order Government of President Suharto.

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 to 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.

6. Financial Accounting Information Consequences

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 converted into an accrual basis annually. 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) 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), 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. 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 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). Gambling (1987) called this kind of relationship as a satisfactory long-term relation between the auditor and his/her client 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) and to comply with “assessment criteria originally exterior to the organization” (Fogarty, 1995). 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 Dirsmithet

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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.

11 In fact, it was the auditor who also prepared the financial statements.
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, 1987) 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; see also Fogarty, 1992) 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) 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 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 Czarniawska-Joerges and Jacobsson (1989) who maintain that accounting play the ritual of reason role while financial statements as its output represent its symbols. Brunsson (1994) 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.

It has been realized that institutionalization is a cultural and political process that concerns legitimacy and power much more than efficiency (Carruthers, 1995). 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

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). 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).

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 practices institutionally shaped and socially acknowledged. Cynicism became apparent among certain staff members about the appropriateness of financial disclosures that were used to provide a rationalized myth and legitimacy to the management of the school.

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). The emphasis is on conformity, passivity, and preconscious acceptance (Oliver, 1991). However, this case showed 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). Therefore, as has been elaborated in this study, the response to the external pressures was active and politically motivated.

The bureaucratic-authoritarian regime of the New Order government adopted by the school had contributed to inaccurate reporting of assets quality and poor auditing controls. 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.
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