

IFRS Adoption in Indonesia: Accounting Ecology Perspective

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ABSTRACT

Using the accounting ecology framework developed by Gernon and Wallace (1995), this study aims to examine the reasons Indonesia adopted the International Financial Reporting Standards (IFRS). Data were extracted from the accounting policy makers' offices based in Indonesia including the DSAK, DPN IAI, and Bapepam-LK. In-depth interviews were conducted and data were then processed via thematic analysis, a method used for identifying, analyzing, and reporting themes/patterns noted in the data (Gray, 1988). Results noted from this study revealed four themes which served as reasons behind Indonesia's adoption of the IFRS. The first reason is that Indonesia was dominated by the desire to serve the interests of global business. The second reason is that Indonesia wanted to act as a social accounting actor as it was now in the position to act as a standard buyer. The third reason is that Indonesia is in the position of swift current globalization. Finally, Indonesia is under the political pressures exerted by foreign parties.

Keywords: accounting ecology perspectives, IFRS, case study, thematic analysis, Indonesia

JEL Classification: M41, M48, G18.

INTRODUCTION

Since the emergence of discourse harmonization in accounting standards, there has been a debate among the academic circle about the advantages and disadvantages of such standard harmonization. The debate among scholars occurred partly because of the differences in cultural backgrounds, socio-economic conditions, and political and financial report preparation motives of the various countries. Responding to this issue, various studies were conducted (see e.g.

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Abeysekera, 2005; Perry & Andreas, 2006; Soderstrom & Sun, 2010) but research findings seemed to be inconsistent.

In the case of Indonesia, it seems that Indonesia has been involved in such an activity. In fact, Indonesia supported the globalization of accounting standards. However, as a developing country, Indonesia is surrounded by different institutional settings coupled by different social, political, economic and cultural differences. While most countries have adopted the IFRS as a means of replacing their local accounting standards, the adoption has not been smooth as the global standard discourse has remained to be a constant debate among academics. Many questioned the relevance of the application of the IFRS in their countries (see Alp & Ustundag, 2009; Chamisa, 2000; Gyasi, 2010; Prather-Kinsey, 2006) while others criticized the political motives behind the phenomenon of adopting one global standard (Abeysekera, 2005).

Of course, it is undeniable that the absence of the comparability of financial statements can complicate financial statement analysis and investments across countries (Bradshaw, Bushee, & Miller, 2004). To counter this, the IASB, as an international standard-setter discovered that such a dilemma can be solved by creating a single accounting standard which can be globally applied, thereby setting a uniform procedure. Nonetheless, the adoption of a single accounting standard throughout the world has not been easy. Studies in accounting have found that the implementation of such global standards varies from country to country, thereby resulting in some failures in achieving the desired comparability of the financial statements (see Ball, Robin, & Wu, 2003; Bradshaw & Miller, 2007; Street & Gray, 2001). Various academic literatures also questioning whether the same accounting standards can be applied in a consistent manner by companies that operate in different settings of economic and political culture. Street and Gray (2001) conducted a research by looking at the early users of the International Accounting Standards in several companies.

It was noted that transparency is one indicator for identifying and determining the quality of financial statements. However, the level of financial statement transparency is not just dependent on the International Accounting Standards for it is also associated with the economic or political incentives offered to accountants who prepare the financial statements. Ball, Robin & Wu (2003) had found that the same standards were applied differently in each country and this is attributed to the different implementations provided by the economic and political incentives of each country. Various researchers have thus, come to the conclusion that global comparability is driven by factors rather than the accounting standards. Some researchers (Ball *et al.*, 2003; Burghstahler, Hail, & Leuz, 2006; Land & Lang, 2002) have suggested that comparability of the financial statements can be achieved through regulatory oversights or the pressures of capital markets

Over and above, it cannot be denied that accounting practices around the world are influenced by the environment in which these practitioners are located. Gernon and Wallace (1995) have stated that there are five variables which could affect the accounting environment and they are: the social factors, the organizations, the professional actors as well as the accounting actors. Moreover, the information generated by the various practitioners is also different, depending on the institutional setting in which their accounting practices operate. Overall, it can be concluded that the same accounting practices stated by the International Accounting Standards are applied very differently by the practitioners in each country. In that

regard, this study aims to uncover the reasons put forward by policy makers (DSAK-IAI) as to why Indonesia adopted the International Accounting Standards.

As the initiator of the IFRS, the International Accounting Standards Board (IASB) believes that the IFRS accounting standards can be applied in any place. This assumption, nonetheless, is contradictory to the theory of diversity which says that accounting grows together with its environment. The IFRS is a set of accounting standards produced by the IASB, an independent organization, based in London, UK. The standard was developed with the intention of making it a rule for such standards to be applicable to all financial reporting made by public companies worldwide (IASB, 2010). In this aspect, Indonesia is involved as a developing country. Through the Accounting Standards Board, Indonesia has decided to adopt the IFRS and this was effectively enforced since 2012, for all companies that were listed on the Stock Exchange of Indonesia.

Taking that into account, this study will thus take Indonesia as a case study. The aim of this study is to uncover the reasons behind Indonesia's adoption of the International Accounting Standards (IFRS). By knowing Indonesia's reason for the adoption, this study will contribute to the knowledge of young countries and their adoption practices of the International Accounting Standards such that future studies can develop models for making the adoption more stringent or more flexible, depending on the respective country's economy.

FRAMEWORK THEORY

This study applied the theory of Accounting Ecology that was postulated by Gernon and Wallace (1995). The researchers had identified five different environmental variables that could affect the accounting practices of various companies and these variables include: the society, the organization, the actors, the professionals and the accounting practices. The term, Accounting Ecology, refers to a multidimensional system that is inter-related to one another such that many sub-systems' environment influence and are in turn, influenced by the accounting practices (Gernon & Wallace, 1995). The term 'accounting ecology' was defined as follows:

“A national accounting ecology is a multidimensional system in which no one factor occupies a predominant position and in which the perceptions held by actors on some unfolding accounting phenomena, as well as the accounting phenomena themselves, are the object of study and analysis. Such a synthesis would emphasize the interrelationships of the environmental factors which influence and are influenced by accounting and would focus on the importance of perceptual as well as non-cultural factors such as population and land area” (Gernon & Wallace, 1995, p. 59)

The concept of accounting ecology (Gernon & Wallace, 1995) includes five separate parts which are interrelated to each other: The first part of the societal slice is social ecology which is associated with the element of culture and non-culture (demographic and structural) within a society. This element can affect the demands of financial accounting services. Cultural variables affect the value and orientation of the individuals and groups both within and outside the organization, the profession, the council, and the government of the accounting standards.

The second part of accounting ecology refers to the organization of events and/or

trends related to the selection and design of those accounting systems such as the size of the organization, technology, complexity, and human resources and capital.

The third part of accounting ecology refers to the professions that are related to education, training, professional ethics and culture. This part is also associated with quality problems and the failure of auditing practices, audit fees and auditor's effectiveness and status in society.

The fourth part of accounting ecology refers to the individuals linked to the accounting policy choices made by some individuals. This includes some acts committed by private individuals, the organization and the profession, in the attempt to lobby for the standard setters and to use accounting figures to their respective advantages.

The last part of accounting ecology refers to the concept of accounting that is linked to accounting practices, regulations and/or trends which affect or are affected by other slices including disclosure requirements and practices, measurements, practices, types and frequency of accounting reports.

RESEARCH METHODS

As mentioned earlier, this study aims to uncover the reasons behind Indonesia's adoption of the IFRS in its accounting practices. According to Creswell *et al.* (2007), research intentions of this kind can be classified as in-depth in nature. They also mentioned that research with the characteristics of an in-depth nature is descriptive in nature hence, it would be suitable to be noted as a case study (Creswell *et al.*, 2007). This study adopts the qualitative nature of a case study because there is a compatibility between the research question and the research strategy used. Furthermore, the focus of this study is on the issue (problem) that has occurred in other cases studied before, thus this study would also be using multiple sources of data.

Data were collected by using a combination of documented documents and interviews. The interviews conducted were in the form of structured and in-depth interviews. Potential informants who were adopting Indonesia's accounting standard setters proposed by the DSAK were selected. These DSAK members fulfilled the study criteria which states that they must be DSAK members who was serving as members before the adoption decision was taken (before 2012). In addition, the DSAK informants must have been a former member or chairman of the KNPAP (National Committee of Indonesian Accounting Principles). Another important informant criteria is that the participant must also be a member or the chairman of the board (DPN) of the IAI. In addition, participants who supported the policy and the government institutions were also considered as important. This study involves three government institutions.

The method used for data analysis was referred to the approach proposed by Miles and Huberman (2008) which comprises of three phases: data reduction, data display, and conclusion. To provide a more detailed and thorough analysis, especially at the phase of data reduction, a thematic analysis was used to support the existing analytical methods in addition to the proprietary data analysis method proposed. The thematic analysis was employed due to the intention of preventing data inflammation and to improve the rigor of the research. The thematic analysis is a method used for identifying, analyzing and reporting themes/patterns noted in the data during analysis (Gray, 1988). It is, potentially, used to generate emerging

themes which are considered to be important in describing the phenomenon of the research. The themes were obtained through the process of reading and re-reading the data carefully (Gray, 1988; Sukoharsono, 2010).

The Accounting Ecology approach proposed by Gernon and Wallace (1995) was chosen as a theoretical consideration in this study because it clearly outlines how the accounting practices operate in some environments. The Accounting Ecology is used as a preliminary approach to understand how the accounting practices develop in an accounting ecology. In the early stages, this theory is used to map the diversity of the accounting practices. In the context of this study, the emerging categories or themes noted would help to differentiate the reasons noted in the accounting ecology (Gernon & Wallace, 1995).

Most qualitative researches are descriptive in nature. A qualitative analysis method can be divided into two groups (Braun & Clarke, 2006). The first group is a qualitative analysis derived from a particular theory and epistemology positions. The second group is a method that is independent of a particular epistemological theory and assumption. Thematic analysis belongs to the second group. Thematic analysis can be applied in both the essentialist and constructionist paradigm (Fereday & Muir-Cochrane, 2006). Because of the freedom offered by a certain theory, it appears that a thematic analysis would provide some level of flexibility in the analysis of data, and this can potentially, generate a rich and detailed but yet complex, data.

There are two approaches that can be used in a thematic analysis namely the inductive or 'bottom up' approach or the deductive or top down or 'theory based' approach (Braun & Clarke, 2006; Fereday & Muir-Cochrane, 2006). In the inductive approach, a theme has a strong association with the acquired data. The data which were collected through interviews or focus group discussions might produce less themes which are linked to the specific questions asked. The theme is also not derived from theoretical studies which are related to the research topic. Thus, it is concluded that the inductive approach is a coding process of data without trying to match data with a predetermined coding frame (Braun & Clarke, 2006). In other words, the theme is apart from the preconceptions of analysis offered by the researcher. In contrast, an inductive approach or a 'bottom up' approach focus on how the research questions can be further developed through the process of encoding. A deductive approach or the top down or theory-based approach is normally driven by the theoretical interest or the interest of the researcher in a particular field, so that the coding leads to the research question (Braun & Clarke, 2006). It tends to be less thematic but it provides a detailed overview of the overall data, and can therefore, lead to a detailed analysis of several aspects of the data.

This study uses a combination of the inductive and deductive approach. This method was chosen because of the need to obtain a wider space of discovering and uncovering the reality of the phenomenon under study. By incorporating these two approaches, the weakness of one method can be neutralized by the advantage of the other method. In general, there are five stages in the thematic analysis (Braun & Clarke, 2006). First, the researchers need to familiarize themselves with the data. This process is done by transcribing, reading and re-reading the data. The second stage is making the initial code. This process is done by coding attractive features on the entire set of data and compiling the code relevant to each code. Third, the process involves compiling the code into a potential theme. This is done by collecting all the relevant data for each theme that is potentially linked. Fourth, the process of reviewing the theme by checking

to see whether there was a match between the code and the theme for the entire set of data. This stage produces a 'map' for thematic analysis. Fifth, in the process of defining and naming the emerging themes, a continuous analysis is done so as to produce a concise definition and term for each theme. The last stage is to prepare a report of the data analysis.

At the end of this article, some pictures taken from the compilation of the puzzle scattered before is shown. In gaining an overall picture of uncovering the reasons for the adoption of the IFRS in Indonesia, in-depth interviews were conducted with 11 informants. The entire interview took almost 20 hours and they were recorded into a sound digital recorder. Data display was done by transcribing the interviews while listening to the recording of the interview, and checking these with the field notes taken of each informant. This process was done continuously until data saturation was achieved. Data transcription was done by research assistants who had accounting background.

FINDINGS

The findings of the study were able to identify the reasons related to the ecological aspects of accounting that eventually resulted in the adoption of the IFRS-based dissemination of research dataware. The findings were then grouped into two: external and internal reasons. External reasons encompass the pressure and compulsion that led to the adoption of Indonesia's membership in various international organizations while the internal reasons include the desire of the nation and policy makers' thoughts for the adoption of the IFRS in Indonesia.

Based on the interview excerpts, it seems clear that in the adoption process of the IFRS, Indonesia was in the position to act as a buyer of the IASB product. However, Indonesia was positioned as a buyer who does not have any bargaining power. The important point noted is that this shows Indonesia's placement position in serving the interests of investors from abroad. Meanwhile, from the standpoint of a buyer with less expensive domestic demands, the accounting informants mentioned that many countries in the world which were using the product (IFRS) was isolating themselves from Indonesia, hence, the reason for Indonesia to adopt such standards.

In the context of this study, the themes that emerged from the data analysis process are presented in Table 1 below. These themes are grouped into three parts: capital market, intellectual actor, and political pressure. Previously, Gernon and Wallace (1995) had stated that the concept of ecological accounting includes five separate sections which are interrelated to each other. They talked about the societal slice. In Gernon and Wallace's work, Social Ecology is associated with culture and non-culture (demographic and structural, including politics). They deemed this to likely affect the demands in financial accounting services (Gernon & Wallace, 1995). They also mentioned that cultural variables affect the value and orientation of the individuals and groups, both inside and outside the organization. Besides this, they also noted that the accounting profession and the council and government of the accounting standards could create some influence.

Table 1: Thematic analysis of the reason for the adoption of IFRS in Indonesia

Excerpt of Respondents' Answers	Sub tema	Tema
Well, this is your main question a moment ago, If in the past, information is needed by every country within its geographical territory, but well nowadays, the stocks of Telkom are bought by stockholders everywhere. Telkom is brave to be listed on NY so the users do not recognize country borders anymore. -HK	Do not recognize country borders /cross border	FACILITATING FOREIGN INVESTORS/ CROSS BORDER
In globalization era, nowadays, the flow of funds is hither and thither and there is acquisition merger and then cross border while listing is everywhere. Formerly, USA was arrogant, but now after a long time, they are regressing, they are forcefully to follow – HK	Cross border listing	
Investment unrestricted by the country is a kind of cross border– ERW	Cross border	
It would be easier for foreign investors to invest in Indonesia – ERW	Easy foreign investors	
Now, secondly, what is the real objective of financial accounting? Actually, it is mainly to attract funds. We are competing to raise incoming funds. Whether foreign investors enter Indonesia and so on- HK	To make it easier for incoming funds/ foreign investors	
It would be easier for American investors to assess-ERW	Easy foreign investors	
Marketing to foreign investors would be easier-ERW	Easy to market to foreign investors	
The highlight of Indonesian Accounting Standards (PSAK) is that if we want our go public companies to be listed on other stock exchanges, then it is the first reason of International Accounting Standards that we adopt – JH	Cross border	
That foreign direct investment would be encouraged to enter Indonesia. If countries that have started to adopt International Accounting Standards, ask question about what is your accounting fundamental... Err... yeah... It is disorganized... there is FASB for certain group and also International Accounting Standards and so on. JH	Encouraging FDI to enter/ It is easier for foreign investors to enter	
And imagine that an Indonesian company issues Global Bonds. If it has used IFRS, it does not need to have reconciliation-AH	Cross border for Indonesia	
It means that it can obtained funds not only in Indonesia but also from foreign countries-ERW	Cross border	
It would be easier to go public. By going public, it can have obtained funds, cheap funds right-MS	Cheap funds	

Table 1: (Cont.)

We should think positively. That the economy is growing, big companies, if they want to find cheap funds, they can implement this – GT	Cheap funds	
Globalization is getting more severe and emerging in the world. International accounting standards was formerly in London, UK and in a hurry; it was legalized and settled in London. Developed countries particularly America neglected it. America didn't consider it-HK	Globalization	GLOBALIZATION
Globalization cannot be restricted, right-ERW	Globalization	
It can be said that Mr. Hans is already rare. He has mastered the history of our accounting standards since 1984. Mr. Hans has been working for a long time in the standard board-AH	Hans Kartikahadi	The actor behind the adoption of IFRS
In 1994 or 1995 or 1996, in a meeting of accounting standard committees led by Hans Kartikahadi, I was there (Jan Husada) and then some of the honorable participants were Professor Wahjudi Prakarsa, Rosita Sinaga and also Merliana Syamsul. She was as the worker eh what eh the note taker and so on at that time. Then there was also Yosefa Sayekti the as the note taker. ..the meeting that morning was started by a question from Mr. Hans Kartikahadi. Mr Han asked to Prof. Wahjudi Prakarsa, but not to the meeting. Prof... What is your opinion about International Accounting Standards - JH	Hans Kartikahadi Jan Husada Wahjudi Prakarsa	
Mr. Hans said that many countries have applied AIS, many countries and it is also accepted by developed countries, so it is a better way, it is far quicker than if we conducted research-MS	Hans Kartikahadi	
... that bloody war... without solution... I (JH) approached Prof. Wahyudi Prakarsa... I approached Hans Kartikahadi... Because I am an expert in strategic management... I used war theory. Sun Zhu's theory... 'embracing opponent-(JH) ...so my idea was Sun Tzu, yeah that's it... that war strategy of Sun Tzu was proven... oh... I will make you as a king, yeah now in Indonesia, yeah... hehehe.... that's accursed-JH	Jan Husada	
Since then I keep fighting, why don't we translate (IFRS) and in certain parts that we think we must be different, only in those parts we state that we are different... that's what I'm fighting for-AH When I led as the head of IAI in 2005, it was concurrence with the law issuance stating that all members of IFAC must use the same accounting standards (IFRS). Then, I utilized that chance. It was what I had in mind...I rather forced the Standards Board to adopt IFRS-AH ...then from 1995 to 2004, approximately 10 years. Then, I forget, Pak Ahmadi sometime ago started to announce, we moved to IAS, perhaps in 2004, 2005 around those year-MS	Ahmadi Hadibroto	

Table 1: (Cont.)

One of the SMO that is SMO 7, it is compulsory for all accounting associations all over the world to be the members of IFAC (including IAI of course) to adopt IFRS. Responding to the issuance of SMO 7, the national standard board consulted to Financial Accounting Standard Board. Based on some fundamental considerations – the details can be obtained from Mr. JH and Mr. JW (the informant mentioned two names), it was decided by the Financial Accounting Standard Board that Indonesia must adopt IFRS-AH	Statement of Membership Organization (SMO) IFAC obligates its members to adopt IFRS	Political pressure from foreign institution caused Indonesia to adopt IFRS
The new G20 movement brings more confidence to the convergence initiatives led by the Indonesian Financial Accounting Standards Board (IFASB) which is funded by the IAI-RUS	G 20	
...but as the member of IOSCO, we also like that. IOSCO is international organization of security commission. BAPEPAM (Indonesian Capital Market Supervisory Agency and Financial Institution) is also the member yeah. It seems that IOSCO is similar to G20; it suggested using high quality accounting standards. It is IFRS. The main point is that we must follow IFRS-ERW.	G20 IOSCO	

Gernon and Wallace (1995) also talked about the organizational slice. Here, ecology was used to refer to the organization of events and/or trends that led to the rationalization of selecting and designing those accounting systems. These factors include the size of the organization, the technology used, the complexity of the organisational structures and human resources and capital (Gernon & Wallace, 1995).

The third factor mentioned was the professional slice whereby ecology professions were deemed to be related to education, training, professional ethics and culture (Gernon & Wallace, 1995). It was also mentioned that professional ecology may be associated with quality problems and the failure of the audit, the audit fees and auditors' effectiveness and their status in society.

The fourth factor is related to the individual ecology which refers to the accounting policy choices made by individuals. This includes private individuals, organizations and professions. The intention is to attempt to lobby for the standard setters into using accounting figures to their respective advantages (Gernon & Wallace, 1995).

The fifth factor is related to the accounting slice which includes the accounting practices and the regulatory and/or trends that affect or are affected by other slices in ecological accounting (Gernon & Wallace, 1995). This also includes disclosure requirements and practices, measurements, practices, types and frequency of accounting reports.

Unlike the ecological theory of accounting proposed by Gernon and Wallace, this study attempts to uncover the themes that surround the reasons motivating policy makers in Indonesia into adopting the IFRS accounting standards. The three themes identified are capital market, intellectual actor, and political pressure. Seen from the perspective of ecological accounting, the first theme 'capital market' is categorized under business ecology. Based on the data analysed,

the first theme disclosed that the adoption of the IFRS was not caused by the urge to serve the interest of ecological business in the country. It was in fact caused by the desire to serve the interests of the initiator of global business ecology. Gernon and Wallace (1995) called this sub-system ecological organizations. In the context of this study, the term, 'capital market' is used whereas it was specifically termed as business ecology by previous studies, for example, Gernon and Wallace (1995) stated that organizations can take the form of private companies, public companies, governments as well as international institutions for example, the World Bank, IMF, IASB as well as national standard setters institutions. Each of these organizations operate in different environments and each carries a different background, structure, size, and complexity, thereby, different needs.

The second theme noted falls under individual ecology/actor. Here, ecology refers to the accounting policy choices made by individuals including private individuals, organizations and professions who attempt to lobby for the standard setters and to use accounting numbers for their respective gains (Gernon & Wallace, 1995). In the context of this study, some individual names of the IFRS adoption key figures in Indonesia were found. These individuals were not only lobbying for the accounting standard setters, but were also the policy makers of such accounting standards. This study uncovered the key figures and their followers as well as the strategies used in realizing the adoption of those standards.

The third theme uncovered relates to political ecology. Gernon and Wallace (1995) had suggested that social environment is one in which ecological accounting is involved and fused with the development and practices of accounting. The social environment proposed by Gernon and Wallace (1995) was divided into a sub-system of culture and non-culture: demographic and structural. Both these subsystems and social structures (including political and economic) refer to the macro aspects that distinguish people from one another. Structural sub-systems including the level of technology and political and economic developments occur in the ecology of accounting. In this phase, the sub-structural systems found were associated with the other accounting ecology for example, actor ecology, business ecology, political ecology and other ecological systems. In the case of the adoption of the IFRS, it is necessary to understand how exactly the adoption of IFRS occurred in Indonesia.

CONCLUSION

This study has examined and identified the reasons behind the adoption of the IFRS in Indonesia. As a case study, data showed that the adoption was not only caused by Indonesia's urge to serve the interests of ecological businesses in the country, but also by its desire to serve the interests of the initiator of global business ecology. Data revealed that the actor was authorized to take the policy of the accounting standards. When this occurs, Indonesia was put into the position as a buyer of the products sold by the IASB representatives who had come from nations that produce the IFRS. Moreover, it was noted that Indonesia did not have the bargaining power even in its position drawn from the swift currents of globalization and all its consequences. Another important point noted was that due to the occurrence of the adoption, Indonesia stood in the position as a steward of global interest with the passion of serving the interests of foreign

investors. However, from the standpoint of the buyer who can see the less expensive value of adopting the IFRS in domestic demand accounting, the actor believes that the international standards was already existing and being used in many countries. Consequently, Indonesia too was driven into using them. From the perspective of performance in the political ecology, it appears that the adoption of the IFRS in Indonesia is mainly due to political pressures from foreign parties.

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