

THE IMPACT OF COMPETENCIES, RISK MANAGEMENT AND AUDITORS INTERACTIONS ON INTERNAL AUDIT EFFECTIVENESS IN LIBYAN COMMERCIAL BANKS

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Abstract: Internal audit (IA) has become an important and integral function of organizations in achieving their objectives and protecting their assets. Nonetheless, IA effectiveness has received scant attention in the literature, especially in the context of developing countries such as Libya. The research aimed To analyze the impact of competencies of the internal audit team, risk management and interaction between internal auditors and audit committees on internal audit effectiveness in Libyan commercial banks. The research used the quantitative methodology for analysis.the sampling technique used in this research was random sampling. Participants in research included 105 auditors selected from branches of commercial banks in Libya. The research adopted the descriptive method using the survey from the commercial banks and its branches and analysing the impact of competencies, rick managment and auditors interection on internal audit effectivness. The results of this research showed that: firstly; Competencies of an Internal Audit team on Internal audit effectiveness was significant and positive correlation. Secondly; Risk management on Internal audit effectiveness was higer significant and positive correlation. Thirdly; Interaction between IA and AC on Internal audit effectiveness was significant and positive correlation.

Keywords: Competencies of Internal Audit team, Risk Management, Interaction between Internal Auditors and Audit Committees and Internal Audit Effectiveness.

1 Introduction

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Arens et al. (2005) define auditing as the „accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria“. The American Accounting Association (AAA) guidelines (1973) defines auditing as „a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested parties“. Thus varied definitions for auditing are provided by different authors and professional bodies/association. (Arens, 2005).

The Professional Practices Framework in the Institute of Internal Auditors (IIA) Research Foundation (2004) defines ‘Internal Auditing as ‘an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes’. Sarens and DeBeelde (2006) view internal audit as a function that is needed by senior management to ‘compensate for the loss of control the management experiences as the result of increasing complexity in an organization’. Under International Standards for Auditing (ISA) in the International Auditing and Assurance Standards Board (IAASB) internal audit means „an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, monitoring internal control’. From the above definitions, in a nutshell, it can be concluded that internal audit emphasizes on management control, effectiveness of operations and governance resulting in value additions for companies. (Beelde, 2006).

Co-operation between the internal and external auditor is also considered an important factor that impacts on IA effectiveness. Arena and Jeppesen (2010) indicate that the coordination and co-operation between the internal and external auditor is becoming one of ‘intellectual jurisdiction’, where external auditing, as the superior profession, controls the knowledge base of internal auditing but allows internal auditors to practice IA as they please.

Risk management is also considered an important factor that impacts on IA effectiveness (Albercht . 1988). Mihret and Yismaw (2007) and Mihret and Woldeyohannis (2008) also contend that risk management to IA is considered as a determinant of IA effectiveness and it is identified as one of the factors that bode well for a good IA department profile (Mihret 2009). Albercht et al. (1988) find that the visible risk of management to IA is the most important factor that enhances IA effectiveness. In addition, the IIA’s Standards for Professional Practice of Internal Auditing (1100–Independence) state that internal auditors should have the support of senior management and of the board so that they can gain the cooperation of auditees and perform their work free from interference. (the Institute of Internal Auditors, 2000).

This is the first known research to research issues concerning the internal audit function in public enterprises operating in Libyan commercial banks, where there are no regulations or guidelines to instruct organizations on how to manage their internal audit departments. Unlike the West, in Libya there are no professional standards and

international professional bodies available to internal auditors, resulting in organizations establishing their own guidelines on the practice of IA.

This research provides insights into IA in Libyan banks and whether the internal audit function is perceived to be effective, thereby enhancing practitioners' understanding of the merits and limitations of IA in Libya. As a research on competencies of internal audit teams, processes and activities of internal auditors and the level of interaction between internal auditors and audit committees, it enhances understanding of the internal audit profession's global configuration. By conducting research on IA in Libya, this research will enhance the understanding of IA effectiveness in Libya where the environment Libyan commercial banks works.

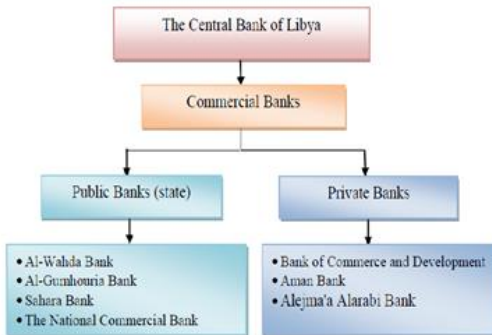


Figure 1: Structure of Libyan Commercial Banks

1.1 Research Question

Internal audit departments have been established in Libyan public enterprises to evaluate the activities of organizations as a service to management. Despite the importance of shedding light on IA effectiveness in various economic activities in Libya, no formal guidelines have been provided to manage internal audit departments. Furthermore, most previous studies have focused on external audit.

Thus, due to the limited research conducted concerning IA effectiveness, the growing importance of IA in organizations, and the possible influence of some factors on IA practices then the question arising is:

- What are the impact of competencies of the internal audit team, risk management and interaction between internal auditors and audit committees on internal audit effectiveness in Libyan commercial banks?

1.2 Research Objective

To analyze the impact of competencies of the internal audit team, risk management and interaction between internal auditors and audit committees on internal audit effectiveness in Libyan commercial banks.

2 Literature Of Reserach

2.1 Agency Theory

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees, and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures).

Considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out their monitoring role over management if it is ineffective itself. (Ittonen, 2010).

By definition, agency theory attempts to describe a relationship where one party (the principal) delegates work to another (the agent). Furthermore, it is concerned with resolving the problems in a relationship with conflict of interests and risk sharing when attitudes toward risk diverge. The Encyclopedia Britannica defines “financial agency theory” in the following manner:

“In organizational economics, a means of assessing the work being done for a principal (i.e., an employer) by an agent (i.e., an employee). While consistent with the concept of agency traditionally advanced by legal scholars and attorneys, the economic variants of agency theory emphasize the costs and benefits of the principal-agent relationship. While a beneficial agency cost is one that increases a shareholder's value, an unwanted agency cost occurs when management actions conflict with shareholder interests. Such would be the case when managers put their own interests ahead of an owner's interests (e.g., manipulating short-term earnings at the expense of long-term performance in order to receive a bonus). Ongoing analyses of agency costs are a common managerial tool, especially in corporations that are managed by non-owners, because they serve to indicate whether—or how well—a manager (agent) is fulfilling his fiduciary obligation to an owner (principal).

2.2 International Standards for professional practice of internal auditing

2.2.1 Internal Audit Effectiveness

Mihret, James & Mula (2010) state that the value–adding role of IA presumes that IA is effective, therefore, IA effectiveness should be studied to assess the value-adding potential of IA. There are two basic reasons why it is important to examine IA effectiveness. One is that it is an indication of the quality of performance and can

describe whether or not the IA function is performing in a satisfactory manner. The second is that the examination can serve as a motivator for an individual or an organization to improve their performance. Mizrahi and Ness-Weisma (2007) maintain that, in general, there are two important tools for achieving managerial accountability in the policy-making process, namely, evaluation and auditing. Nonetheless, as explained earlier, to date very few academic studies have been conducted on IA effectiveness, and despite the general undercurrent in relation to an IA paradigm shift, research has provided mixed findings on IA effectiveness (Mihret J. M., 2010), and has assessed IA effectiveness differently.

Goodwin (2004) makes a comparison between the role of IA in the public and private sectors in Australia and New Zealand. The author highlights that while there is no requirement for private sectors in Australia and New Zealand to establish an internal audit department, the Australian Stock Exchange (ASX) encourages large companies to do so. However, the requirement to establish an IA function in the Australian public sector is not straightforward because of differing State legislation. On the other hand, within the public sector in New Zealand there is no requirement for IA function. The results suggest that internal auditors in the public sector are less likely to report to the chief of financial affairs than those in the private sector. Although the two sectors often outsource IA work, public sector organizations are more likely to use an external auditor for these services. Furthermore, there does not appear to be any significant difference between internal auditors in the two sectors in terms of their interaction with external auditors.

Mihret, James and Mula (2010) apply institutional theory and Marx's (1978) theory of the circuit of industrial capital to relevant theoretical and empirical literature to develop propositions and suggest a research agenda on the antecedents and organizational performance implications of IA effectiveness. Similar to that of Al-Twaijry, Brierley and Gwilliam (2003), their study employed compliance with ISPPA as an indicator of IA effectiveness. It relates to the normative standards (IIA standards) that internal auditors are expected to follow. The authors suggest that the dynamics prevailing in an IA setting impact on IA effectiveness. The extent of internal audit's level of compliance with ISPPA could serve as an additional approach to assess IA effectiveness. They also indicate that empirical testing should not require the adoption of a hard-core positivist mindset or an exclusive focus on agency theory.

Based on the approaches of previous research (e.g., Al-Twaijry, Brierley & Gwilliam 2003; Albercht et al. 1988; Arena & Azzone 2009; Cohen & Sayag 2010; Mihret, James & Mula 2010; Mihret & Yismaw 2007) the present research interprets the views of participants regarding IA effectiveness by identifying seven factors that impact on IA effectiveness, namely, independence, competence, scope of work, performance, co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing. Subsequently, both the professional and academic literature on these factors is discussed next.

2.2.2 Competencies of an Internal Audit Team

For IA to be effective, internal auditors need appropriate competence to perform their work satisfactorily (Burnaby, 2009). This view is supported by Al-Twaijry, Brierley and Gwilliam (2003) who suggest that the staffing of internal audit departments and the management of its staff is vital to the effective operation of IA, and that unless they possess the necessary competencies the power of internal auditors may be diminished.

Mihret, James and Mula (2010, p. 240) also support this view by stating that ‘technical competence and continuous training are considered essential for effective internal audit’.

Libby and Frederick (1990) indicate that experience is an important tool in enhancing auditors’ knowledge. In addition, Bonner and Lewis (1990) state that years of experience is considered as an indicator of auditors’ knowledge and expertise. Internal auditors require a wide range of competencies to achieve satisfactory performance in the various hierarchical positions within internal audit departments (Burnaby, 2009).

Competence requires knowledge and professionalism that the auditor should acquire from education, on-the-job training, and experience. Thus, legislators set requirements that must be met before people are qualified and entitled to perform audits (Paape, 2007).

2.2.3 Risk Management in Internal Auditor

Use The change in perspective of IA over the last few years has already been discussed. Roughly speaking, we can distinguish between a ‘traditional internal audit’, focused on compliance and monitoring, and a ‘new internal audit’, which is focused on improving corporate performance. ‘Traditional IA’ examines whether line managers, in trying to reach their objectives, respect corporate boundaries and it could, in the short term, reduce efficiency and profitability, i.e. the main performances that measure the results of line managers. Owing to its links to risk management, ‘new IA’ helps managers understand what could prevent them from reaching expected targets (see, for instance, COSO, 2004; Matyjewicz & D’Arcangelo, 2004; Beasley, 2005; Jackson, 2005). According to the IIA Position Statement (2004), the core role of IA in ERM is to ‘provide objective assurance to the board on the effectiveness of an organization’s ERM activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively’. Furthermore, internal auditors can provide consulting services to assist the organization in identifying, evaluating, and implementing risk management methodologies and controls to address significant risks.

The Institute of Internal Auditors, IIA (2004), by stating that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognizes the assurance and consulting role of internal auditing in corporate governance and simultaneously in risk assessment. Action plans defined and implemented for risk mitigation regular follow-up on the progress of implementation plans aimed at mitigating risk.

The auditor uses his professional judgment and takes into account many factors when assessing inherent risk. The auditor is able to assess some of the inherent risk by considering the organization as a whole, because some risks are created by the entity’s culture and management style. Every organization is subject to its own inherent risks and the internal auditor should catalogue them for use in risk assessment. When the auditor assesses the inherent risk, he must establish the obstacles that will prevent from the bad implications resulting from those risks. This consideration deals with the control risk (Cohen, & Sayag, , 2010).

2.2.4 Interaction between Internal Audit and Audit Committee

The position of IA in an organization is bounded; it is a corporate unit that should have a large amount of autonomy and independence in order to perform its activities in a

proper manner. A key decision about the organizational role of IA concerns its relationship with the audit committee (AC). Growing interest in corporate governance has led a few scholars to explore such a link (see, for instance, Scarbrough., 1998; Goodwin & Yeo, 2001; Raghunandan, 2001, Goodwin, 2003). IA and the AC are two different control bodies: IA operates within the organization, while the AC is made up of members of the Board of Directors.

These two bodies, however, have related purposes: one of the objectives of the AC is to monitor and evaluate the internal control system, which is also the primary goal of the IA team (see, for instance, COSO, 1992; Blue Ribbon Committee, 1999; Combined Code, 2003).

A real interaction between IA and AC is very important for both (Raghunandan, 1998; Bishop, 2000; Goodwin, 2003) and, in fact, many guidelines and standards promote such cooperation. Furthermore, some scholars stress its importance for the performance of audit committees.

Focusing on IA, the interaction with the AC makes information exchange and data availability easier (Raghunandan, 1998; Bishop, 2000; Walker, 2004; Mat Zain., 2006). The AC monitoring of IA could also help identify problems in IA itself and offer opportunities for improvement.

The audit committee is expected to monitor banks risk, the integrity of the bank's financial statements and internal controls, the qualifications and independence of the bank's independent auditor, the performance of both the bank's internal audit function and its independent auditor, and the bank's compliance with laws and regulations. In this resource guide, we provide audit committee members with important information to help them understand their role and responsibilities as they navigate the governance landscape and perform their duties. We also provide helpful tools, including examples of an audit committee charter, an audit committee report, a financial expertise questionnaire, a meeting planner and a self-assessment tool for audit committees. In addition, the Questions section includes a variety of inquiries you can make of management, internal audit professionals or the independent auditors on selected topics and performance.

2.3 Commercial Banks in Libya

Commercial banks are the earlier banking institutions that have been established in Libya since the beginning of the 19th century. However, these banks were established by foreign countries such as Italy and Britain without any establishment for the Libyan owned banks at that time. For example, the Banco di Roma was established in 1907, the Bank of Napoli, the Bank of Italy and the Banco di Sicilia in 1913 and the Barclays Bank in 1943. In 1963 most of these banks became Libyan joint-stock companies that were owned by the Libyan government or the Libyan people with at least 51% in accordance with the law No.4 of 1963 that aimed to organize and build the Libyan banking system (Central Bank of Libya, 2006). For instance, the Banco di Roma became the Umma Bank, the Banco di Sicilia became the Sahara Bank and the Barclays Bank eventually became the Gumhouria Bank. Later in 1970, the Banking Law No.153 of 1970 passed for nationalizing all banks in Libya to be owned completely by Libyan public and private sectors (Central Bank of Libya, 2006).

2.4 Conceptual Framework and Hypothesis Development

The research framework uses in this thesis. (Arena, & Azzone, 2009) Model, three independent factors. Competencies of internal audit teams, Activities of IA in risk management and the interaction between internal auditors and audit committees are identified as having an impact on the internal audit effectiveness, which is the dependent variable.

In this study, the Arena and Azzone 2009 model for measuring internal audit effectiveness in Libya commercial banks has been adopted for a couple of reasons. Firstly, as compared to the other models discussed earlier, this model is more suitable as it is most current and it also extends the traditional approach of internal auditing to include effective management support activities. Secondly it recognizes the fact that individuals may sometimes have interests which are different from organization goals, and this causes conflicts of interests among the concerned parties. Finally, the model also recognizes agency problems arising from agency relationships in the organization.

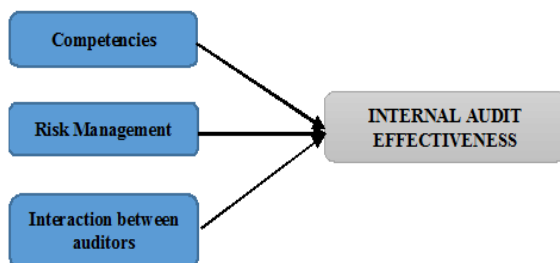


Figure 2: The framework model (Arena, M & Azzone, G, 2009)

- **Hypothesis (1):** Competencies of an internal Audit team has a positive impact on internal audit effectiveness in Libyan commercial banks.
- **Hypothesis (2):** Activities of IA in risk management has a positive impact with internal audit effectiveness in Libyan commercial banks.
- **Hypothesis (3):** The interaction between internal auditors and audit committees has a positive impact on internal audit effectiveness in Libyan commercial banks.

3 *Research Method*

3.1 **Type of Research**

This study employs a quantitative research paradigm to enable understanding as to whether the internal audit function is perceived to be effective. It is worth mentioning here that this study is concerned with the profession of internal auditing. However, organization type characteristics were not used for the basis of analysis in this study as they were outside the scope of the research question. The selection of the three types of enterprises merely ensured the presence of internal audit practice.

3.2 Population and Sample

Populations in this research are the employees of the Libyan commercial banks. The workforce encompasses 520 Auditor. Bless, Higson-Smith and Sithole (2013) defined population as the complete set of events, people or things to which the research findings are to be applied. In this study, the research population constituted of heads of departments, supervisors and workers. To successfully conduct the research, proportionate random sampling procedure was used. Proportionate random sampling, according to Babbie (2013), is a modification of random sampling in which you divide the whole population into two or more strata based on one or more attributes. In this study, the participants were divided according to departments (i.e. Heads of departments, superiors and employees).

To ensure that samples adequately represent the relevant strata, 120 respondents were randomly selected from all internal auditing department. When choosing a sample, there are two important issues have considered: will the sample be representative of the population, and will the sample be precise.

Table 1: Sample of Commercial Banks and its branches

banks	Number of Branches	Population of Auditor	Number of Sample
National Commercial Bank	56	52	16
Wehdah Bank	76	89	28
Sahara Bank	41	23	7
Jamhoria Bank	107	221	69
total	280	520	120

Sample size of this research was selected as a total of 120 auditors of population. Sample was almost 23% of population.

3.3 Variables of Research

The research variables were used in this study consist of dependent variables audit process, the quality of the audit report and the scope of work. On the other hand, to measure the impact of internal audit, this research considered the competencies of an internal audit team, risk management and interaction between IA and AC as independent variables while internal audit effectiveness as dependent variables. An operational definition is measurement of a variable and for assigning a value of the case for the variable. Research variables and operational definitions are being explained in Table 2.

2.

Questions of this table are explained in the next paragraphs of this article.

3.4 Data Collection

Data collection technique is intended to obtain materials that are relevant, accurate and reliable. Method of data collection in this research used two ways: primary data collected by survey and investigation.

This research study is going carried out through structured questionnaires survey administered to different respondents in commercial banks in Libya.

Table 2: Research variables and operational definitions

N O	Variables	Indicators	Items
1	Internal audit effectiveness (Y)	audit process the quality of the audit report scope of work	See Q (1)
2	Competencies of an Internal Audit team (X1)	indicators that personal quality, general knowledge, and expertise	See Q (2)
3	Risk management (X2)	Identifying risk management Implementation of IA recommendations Assessing and testing risk management	See Q (3)
4	Interaction between IA and AC (X3)	Communication between IA and AC Evaluating audit plant Determining objectives	See Q (4)

Survey is most preferred techniques because it provides more generalized outcomes of the population area unlike other methods such as case studies (Beelde, 2006) and therefore more generalized conclusions can be drawn from surveys. Further it would be cost effective and saves both respondents' and researchers' time as the questions are short in nature and require almost no prolonged explanations unless warranted.

3.5 Data Analysis Techniques

Data analysis technique is an attempt to find the answer of the research hypothesis. There are two methods of data analysis used in this research.

3.5.1 Descriptive Statistical Analyses

Descriptive statistical analysis aimed to give a description of data that used in the research. Descriptive statistical analysis in this research described the data for each indicator that used to measure latent variables. In this part, the data will be described in terms of minimum value and the maximum value in table.

Descriptive statistical analysis of Internal audit effectiveness, Competencies of an Internal Audit team, Internal Auditors in risk management, interaction between IA and AC will be descriptive.

3.5.2 Inferential Statistical Analyses

This part includes explanations about the impact of Resources and Competencies of an Internal Audit team, Processes and Activities: Involvement of Internal Auditors in risk management and interaction between IA and AC on Internal audit effectiveness.

- a. Impact of Competencies of an Internal Audit team on internal audit effectiveness.
- b. Impact of Processes and Activities: Involvement of Internal Auditors in risk management on internal audit effectiveness.
- c. Impact of Organizational role: level of interaction between IA and AC on Internal audit effectiveness.

3.5.3 Data Analysis Methods

According to (Malhotra, 2010), multiple regression involves a dependent variable and two or more independent variables. If a dependent variable depends on more than one independent variable, then the relationship between two variables is called multiple regression. The formulation of multiple linear regression analysis model that can be used is as follows

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + \dots + b_n X_n + e \quad (1)$$

Which: Y = dependent variables
a = constant number as an intersection
b = coefficient regression
X = dependent variable
e = error term

Unit from each variables still difference, it is need to equated first by using standardized beta, then no constant (Gujarati, 2006). It means, because this research use questionnaire, the answer of respondent are different and it has not same unit, by this case need to equate by use standardized beta. Multiple regress equation that used in this research is:

$$Y_1 = b_1 X_1 + b_2 X_2 + b_3 X_3 + e \quad (2)$$

Which:
Y = variables of Internal audit effectiveness
b = coefficient regression
X₁ = variable of Competencies
X₂ = variable of risk management
X₃ = variable of interaction between IA and AC
e = error term

Model above able to be used then to predict the influences between independent variable toward dependent variable that looks at standardized coefficient (β) each independent variable.

4 Research Results And Discussion

4.1 Respondents Characteristic

The result of questionnaire which are collected from 105 auditors as respondents, we have the representation of respondents characteristic based on the experience and gender of the respondents as elaborate below:

Table 3: Demographic of Sample

N o.	Experience	Total Respondents (seniority)	Percent experience (%)
1	Less than 5 years	17	16%
2	5 to 10 years	47	45%
3	11 to 20 years	28	27%
4	More than 20 years	13	12%
Total		105	100%
1	Male	79	75%
2	Female	26	25%
Total		105	100%

4.2 Descriptions of Variable

Table 4 below, the definition of number (score) 5,4,3,2, and 1 present as follows:

- 5 : Strongly agree
- 4 : Agree
- 3 : Doubtful
- 2. : Disagree
- 1 : Strongly disagree

Competencies of an Internal Audit team were measured by three main indicators, namely personal quality, general knowledge, and expertise. Based on validity and reliability test, all indicators were valid and reliable to measure Competencies of an Internal Audit team. According to table 4 the indicators were clearly described. The Total Mean of participant's opinion of Competencies of an Internal Audit team was 4.12 of 5. This result showed high and positive Competencies of an Internal Audit team in the company.

Risk management was measured by three main indicators, namely Identifying risk management, Implementation of IA recommendations, Assessing and testing risk management. According to table 4 the indicators were clearly described. The Total Mean of participant's opinion of Risk management was 4, 13 of 5. This result showed a high and positive Risk management.

Interaction between IA and AC was measured by three main indicators, namely Communication between IA and AC, Evaluating audit plant, determining objectives.

According to table 5 the indicators were clearly described. The Total Mean of participant’s opinion of Interaction between IA and AC was 4.13 of 5. This result showed a high and positive Interaction between IA and AC.

Table 4 Descriptive Statistics of Variables

Resp.	1	2	3	4	5
No. X1	0	3	230	1067	437
Per. X1	0%	0.1%	13%	61%	25 %
No. X2	0	2	170	938	360
Per. X2	0%	0.1%	11.5%	63.8%	24.5%
No. X3	0	0	160	879	321
Per. X3	0.1%	1.4%	11.8%	62%	22.6%
No. Y	0	4	165	561	300
Per. Y	0%	0.4%	16%	54.5%	29 %

4.3 Multiple Linear Regression

Linier Regression use to calculate the influence of each independent variable, Competencies of an Internal Audit team(X₁), Risk management (X₂), Interaction between IA and AC (X₃) to the dependent variable which is internal audit effectiveness(Y).

Regression equation is funtionate to find the relation between dependent and independent variable by using SPSS for Windowsver 13.00. The regression model is presented in Table 5:

According to Table 5 we obtain the regression equation as follows:

$$Y = 0,723 + 0,159 X_1 + 0,308X_2 + 0,249X_3 \quad (3)$$

- Internal audit effectiveness will increase about 0,159 for every one unit addition X₁ (Competencies of an Internal Audit team). So if, Competencies of an Internal Audit team has 1 unit increasing, then maka Internal audit effectiveness will increase 0,159 unit with the assumption that another variable is considered as constant.

Table 5: Regression Equation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.723	3.329		.217	.829
	X1	.159	.079	.224	2.008	.047
	X2	.308	.087	.353	3.542	.001
	X3	.249	.105	.269	2.375	.019

- Internal audit effectiveness will increase 0.308 unit for every one unit addition of X₂ (Risk management), so if Risk management increase 1 unit, then Internal audit

effectiveness will increase 0.308 unit with the assumption that another variable is considered as constant.

- Internal audit effectiveness will increase 0,249 unit for every one unit addition of X_3 (Interaction between IA and AC), so if Risk management increase 1 unit, then Internal audit effectiveness will increase 0,249 unit with the assumption that another variable is considered as constant.

4.4 Determination coefficient (R^2)

To obtain the contribution of independent variables (Competencies of an Internal Audit team (X_1), Risk management (X_2), and Interaction between IA and AC (X_3) toward dependent variable (Internal audit effectiveness) we can use R^2 value as presented in the Table 6 below:

Table 6: Coefficient of correlation and determination

Model	R	R Square	Adjusted R Square
1	.775	.601	.589

Coefficient of determination is used to calculate the influence or contribution of independent variable toward dependent variable. From analysis of Table 6 we have got the result of adjusted R^2 (the coefficient of determination) is 0,589. Means that 58,9% Internal audit effectiveness variable will be influenced by another independent variable which are: Competencies of an Internal Audit team (X_1), Risk management (X_2), and Interaction between IA and AC (X_3). Whereas another 41,1% of Internal audit effectiveness variable will be influenced by another variable undscribe in this research.

4.5 Validity and Reliability Test

Validity test can be done by correlating every single factors or variables to the total factors by using product moment correlation (r). Criteria of the test whether to accept or reject the hypothesis validity can be done by:

H_0 : $r = 0$, there is no valid data on the level of trust (α) 5%.

H : $r \neq 0$, there is valid data on the level of trust (α) 5%.

Hypothesis no 1 (H_0) is accepted if $r_{\text{test}} < r_{\text{table}}$, and vise versa the alternative hypothesis alternatif (H_1) is accepted if $r_{\text{test}} > r_{\text{table}}$.

The validity test done by using SPSS ver. 22.0 program, employ product moment correlation which resulting value of each question items with a thorough score item of questions as presented in the table 7 below:

Instrument can reliable if it has reliability more than 0,6 ($\alpha > 0,6$) (Malhotra, 2010).

Table 7: Validity and Reliability Test

No.	Variable	r Test	alpha cronbach	Notes
1	X1	0.777	0,891	Reliable & Valid
2	X2	0.685	0,939	Reliable & Valid
3	X3	0.721	0,940	Reliable & Valid
4	Y	0.751	0,882	Reliable & Valid

If alpha score smaller than 0,6 the instrument is not reliable. decision making criteria is consider if the value of reliability alpha coefficient higher than 0,6 so that the variable is reliable.

4.6 Hypothesis Test

According to table 5, t test use to obtain if independent variable partially has a significant influence toward dependent variable. Then it also said, t test > t Table or - t test < t Table then the result is significant so reject H_0 rejected and accept H_1 . If t count < t Table or - t test > -t test then the result is not significant so accept H_0 and reject H_1 rejected. T test result presented inTable 5.

- t test between X_1 (Competencies of an Internal Audit team) and Y (Internal audit effectiveness) indicates t test = 2,008. While t Table ($\alpha = 0.05$; db residual =101) is 1,984. Because t test > t Table that is 3,244 > 1,984 or sig t (0,047) < $\alpha = 0.05$ then influence of X_1 (Competencies of an Internal Audit team) toward Internal audit effectivenessis significant. Means, reject H_0 and accept H_1 . In short, Internal audit effectivenesscan be influenced significantly by Competencies of an Internal Audit team or by increasing Competencies of an Internal Audit team then Internal audit effectiveness will significantly increase.
- t test between X_2 (Risk management) and Y (Internal audit effectiveness) indicates t count = 3,542. While t Table ($\alpha = 0.05$; db residual = 101) is 1,984. Because t test > t Table is 3,542 > 1,984 or sig t (0,001) < $\alpha = 0.05$ then the influence of X_2 (Risk management) to Internal audit effectivenessis significant with alpha 5%. It means H_0 is rejected and H_1 is accepted. In short, Internal audit effectiveness can be influenced significantly by Risk management or by increasing Risk management then Internal audit effectiveness will significantly increase.
- t test between X_3 (Interaction between IA and AC) and Y (Internal audit effectiveness) indicates t count = 2,375. While t Table ($\alpha = 0.05$; db residual = 101) is 1,984. Because t test > t Table is 2,375 > 1,984 or sig t (0,019) < $\alpha = 0.05$ So the influence of X_3 (Interaction between IA and AC) to Internal audit effectivenessis significant in alpha of 5%. This means, reject H_0 and accept H_1 . In short, Internal audit effectivenesscan be influenced significantly by the Interaction between IA and AC or by increasing the Interaction between IA and AC so that Internal audit effectiveness will increase significantly.

4.7 Discussion

The aim of this research is to test and analyze the research questions, and based on hypothesis tested and findings in this research revealed that has a positive impact on internal audit effectiveness in Libyan commercial banks, the results of this research, the

descriptive statistical analysis for Competencies of an Internal Audit team, Risk management, and Interaction between IA and AC were determined as following:

4.6.1 The Impact of Competencies of an Internal Audit team on internal audit effectiveness

The analysis showed that impact of competences on internal audit effectiveness considered by Libby and Frederick (1990) indicate that experience is an important tool in enhancing auditors 'knowledge. On the research result that general knowledge has a positive impact on internal audit so that mean all the auditing whereas working in libyan banks has a good knowledge, however all the auditor has an understanding of and ability to contribute to the range of services internal audit can provide it reated by Libby and Fredrick. In addition, Bonner and Lewis (1990) state that years of experience is considered as an indicator of auditors 'knowledge and expertise, in table (5.2) mose the participansts had longer experience, they have an understanding of how to work within and apply the bank iinternal aaudit sstandards and hhave extensive experience and knowledge, which is used to guide and focus the work of the internal audit unit. Internal auditors require a wide range of competencies to achieve satisfactory performance in the various hierarchical positions within internal audit departments.

According to Agncy theory Internal auditors as agents must perform audit processes at the personal quality, general knowledge, and expertise and other competencies needed to perform their responsibilities perfectly based on the result i can conclated that there is a higer postive imapt of agent (cometences) on the principals (internal audit effectiveness).

4.6.2 The Impact of Risk Management on Internal Audit Effectiveness

This viwe showed the analysing of the testing result of rick managment of internal auditors as one factor which may impact on IA effectiveness. While the indicators used in this research for measurement the risk management in this research was described by three indicators. These indicators are Identifying risk management, Implementation of IA recommendations and Assessing and testing risk management and this varaible has getn the higer postive impact on internal audit effectiveness.

Accordint to Whitfield, 2004 . that the identifying risk management also face significant regulation and have been strongly encouraged to adopt ERM. On the result this indicator has a postive imapt internal audit effectiveness . the analyse showed that all the auditors in libyan commarical banks have identifies and understands how operational objectives link into the higher-level objectives and have knowledge and experience of appropriate methods of managing common risks. whereas Whitfield said that the higher education community is not unlike the business world regarding risks it faces, and institution wide risk management makes good business sense for institutions of higher learning , as well as on this part the audioter have wide experience of suitable controls to manage risks in a variety of relevant environments, also they are undbersanding the banks high-level objectives, how these are funded and key related risks. Here where the impact showed in higer postion.

4.6.3 The Impact of Interaction between IA and AC on Internal Audit Effectiveness

Based on the result testing were the interaction between IA and AC has a positive impact on internal audit effectiveness. Interaction between IA and AC described by three indicators as well. These indicators are Communication between IA and AC, Evaluating audit plan and Determining objectives. Where all these indicators measurement the hypothesis of interactions between auditors in Libyan commercial banks.

According to Raghunandan and Bishop, Focusing on IA, the interaction with the AC makes information exchange and data availability easier and Communication between IA and AC. These studies support my research. On this research analysed data were all the auditors have ability to gift audit reports and findings to the Audit Committee and have provides once needed displays to external parties on the work of internal audit. Linked with Raghunandan and Bishop researcher . on the other way all the auditor works in Libya commercial banks Understanding the employment of key outline coverage procedures, together with activity reports to the audit committee, performance management statistics, and annual reports, however the source of advice for team members, gains their respect, is approachable and accessible to them.

5 Conclusion

For The research was conducted to find out which variables that has the influence toward Internal audit effectiveness. Impact of Competencies of an Internal Audit team, Risk management, and Interaction between IA and AC on Internal audit effectiveness.

Regarding to the analysis of multiple linear regression, we can conclude :

1. Competencies have high and positive impact on internal audit. This high impact related to the expertise and high performance of the internal audit team, the knowledge of the internal auditors have positive impact on determining the competencies of the internal auditor. Competencies were described by personal quality, general knowledge, and expertise. These indicators of competencies has a positive and indirect impact on internal audit effectiveness.
2. Risk Management has higher and more positive impact than the other two variables on internal audit effectiveness. Risk management was described by three indicators. These indicator are Identifying risk management, Implementation of IA recommendations and Assessing and testing risk management, where these indicators have a positive impact on internal audit effectiveness.
3. Interaction between IA and AC have high and positive impact and influence on internal audit effectiveness. Interaction was measured by three main indicators, namely Communication between IA and AC, Evaluating audit plant, determining objectives. These indicators have positive impact on internal audit effectiveness as well.

6 Recommendation

Build upon the summary above, the recommended which can be pointed for the benefit of the commercial banks or even for another party as follows:

1. Competencies of the internal auditor department who are working in Libyan commercial bank and its branches were suitable and effective. But, I suggest that if possible they can implement a new system similar to the developed countries. They got the competencies, but they didn't have new system. It's very important that they update this system to be more effective.
2. The Libyan commercial bank is expected to be able to keep up and raise the quality of Risk management, because it has a dominant influence in affecting the Internal audit effectiveness, for instance banks . Thus will raise the Internal audit effectiveness. So my suggestion is to keep the same way and give more support to the internal auditors.
3. According to Interaction between IA and AC of the internal audit effectiveness, there was a good interaction between both of IA and AC. More surveillance for the system of commercial bank is recommended.

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THE EFFECT OF FIRM SPECIFIC ADVANTAGES AND MONITORING MECHANISM TO FOREIGN SUBSIDIARIES PERFORMANCE

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Abstract

The purpose of this study is to examine the effect of firm-specific advantages and monitoring mechanisms on the performance of foreign subsidiaries in Indonesia. Firm-specific advantages refer to marketing ability, management ability, and firm size. Monitoring mechanism refer to independent commissioner and financial leverage.

This study using purposive sampling in collecting the data. The sample in this study consist of manufacturing company that is listing on the Indonesian Stock Exchange in 2012. The results indicate that the management expertise and financial leverage significant effect on the performance of foreign subsidiaries. Business strategy that run the company failed to moderate the relationship between firm -specific advantages and monitoring mechanisms on the performance of foreign subsidiaries.

Keywords: Firm-Specific Advantages, Monitoring Mechanism, Bussiness Strategy, Firm Performance, Foreign Subsidiary

Introduction

The paradox of foreign subsidiaries performance are interesting. Although foreign subsidiaries get additional costs that are not imposed on domestic companies (Hymer, 1976; Zaheer, 1995; Eden & Miller 2004), previous studies indicate that the performance of foreign subsidiaries are better than domestic companies (Siripaisalpipat & Hoshino, 2000 ; Ogasavara & Hoshino, 2007). In addition, Suyanto et al (2009) show that foreign subsidiaries in Indonesia is more efficient than domestic firms.

The performance generated by foreign subsidiaries have special challenges that not shared by domestic firms. In addition to these additional

costs, foreign subsidiaries are also faced with high labor costs which may affect its performance. Lipsey and Sjöholm (2004) show that foreign subsidiaries in Indonesia are faced with wage labor is more expensive than domestic firms. Industry Ministry of Indonesia reported 190 Indonesia foreign subsidiaries will pull its investment in 2013 because of increasing this labor costs. Most of the companies will attract investment that focuses on labor productivity. This is one of solution, because increase in wages will increase operating expenses which would reduce the ability of the company to make a profit.

Foreign subsidiaries continue to face challenges although it has been facilitated in some way by the host country. To address these challenges, foreign subsidiaries are required to utilize the specific advantages owned parent company to win the competition with domestic firms. Study from Siripaisalpipat & Hoshino (2000), and Ogasavara & Hoshino (2007) on the performance of foreign subsidiaries and the specific advantages of the company showed a positive relationship.

Govindarajan & Gupta (1985) said that the company forming a subsidiary faced problem from control of subsidiaries. Geringer and Hebert (1989) said that the good control is determine whether a foreign subsidiary will be successful or not. Management of subsidiary firms are faced with opportunistic managers that tends to put own interests than the shareholders interests (Jensen & Meckling, 1976).

Most of the research on subsidiary firms only discuss strategy typologies subsidiaries (Andersson et al., 2001). The limited empirical evidence about the performance of foreign subsidiaries be the motivation in this research. This study is expected to provide empirical evidence to explain the effect of variable firm specific advantages and monitoring mechanisms are moderated by the strategy of foreign subsidiaries in Indonesia. The addition of contextual variables such as business strategy to explain the relationship between the company and the performance of the specific advantages proposed by Nguyen (2011), while the addition of contextual variables to explain the relationship of corporate performance monitoring mechanism proposed by Hutchinson and Gul (2004).

The purpose of this study was to examine whether the company specific advantages and monitoring mechanisms affect the performance of foreign subsidiaries in Indonesia. This study also uses the business strategy of foreign subsidiaries to determine whether the company's strategy strengthen or weaken the independent variables were tested. The specific advantages firm are used in this research to follow what is described by Nguyen (2011), namely the ability of marketing, management skills, and the size of the company. Monitoring mechanism that is used is independent and its level of debt in a foreign subsidiary.

Theory And Hypotheses Development

The concept of firm-specific advantages

The specific advantages of the company are certain advantages in terms of which the company is able to generate profits for the company. These advantages will impact company performance to ability of the monopoly advantage. Companies with specific advantages able to create value added for companies that can not be done by other companies.

The firm specific advantages are divided into several types. Rugman & Varbeke (2001) divide the company into two specific advantages, namely nonlocation bound and location-bound. Non-location bound advantages of a company is not bound by a particular place so that it can easily be used globally by the multinational company's internal network, such as patented technology, managerial skills, etc. Location bound is the superiority of companies that are bound by a particular place. This superiority is difficult to be transferred to the internal network so it can not be used globally, for example related to the location advantage of natural resources or labor.

Dunning (1983) divided the company into three specific advantages, namely own advantages, location advantages, and internalization advantages. Advantages associated with the ownership of assets and capabilities transactional advantages possessed by the company. Advantages associated with the location of the specific advantages of a place country. This is similar to the type of location bound advantages described by Rugman & Varbeke (2001). Internalization advantages associated with the company's ability to internalize the international production. This is done because of the benefits derived from the internalization of international production is greater than when the company sold to outside parties, for example in the form of licensing.

The study of the specific firm advantages has been conducted by previous researchers, such as Siripaisalpipat & Hoshino (2000) who studied the effect of firm specific advantages and entry mode on the performance of Japanese subsidiaries in Thailand. This study explains that the firms specific advantages and entry mode is positively related to the performance of foreign subsidiaries. Nguyen (2011) describes some of the variables used to measure the specific advantages that firm R & D intensity, marketing ability, management skills, and firm size.

Theories have Agency and Monitoring Mechanism

Agency theory assumes that the agent (management) who has mastery of information can act opportunistic or not in accordance with the wishes of the principals (shareholders). This leads to behaviors that give priority to serving the needs of themselves first. It therefore requires a system of proper supervision and use of the board of commissioners to oversee the managers to minimize agency costs (Fama & Jensen, 1983).

Fama & Jensen (1983) proposed the commissioners dominated by an independent party to supervise the activities of managers run more effective. Hossain et al. (2000) also said that the independent commissioner assess the performance of the company over more objective than the commissioner of the company, as an independent Commissioner that outside parties do not have an interest in the performance of the company so as to provide better oversight. Supervision aims to ensure that managers do not act selfish and compromising company. Commissioner from outside company will be better positioned to negotiate and oppose them, even in the extreme case of an independent commissioner may propose to the shareholders to terminate the manager's job (Dallas, 2001).

In addition to the use of independent commissioners, control of management can also be done with the debt policy of the company. The increase in debt will reduce the possibility of waste management is carried out (Jensen et al., 1992). The increase in debt leverage increases thus increasing the possibility of financial distress or bankruptcy. Concerns bankruptcy encourage managers to more efficiently, thus improving the cost of agency.

Hypothesis development

Marketing capabilities and performance

Marketing is the activity of introducing products that produced by the company to the consumer. Marketing plays an important role in the company performance where the better performance of marketing will bring a positive impact on overall company performance (Ferdinand, 1999; Listyarso, 2005). Song et al. (2005) say that marketing capabilities are productive resources owned by a multinational company that is able to become a new business. Therefore the marketing function is an activity that is very vital to add value to the products that the company is expected to make profits, developing and maintaining their survival (Kotler, 2002: 18).

The uniqueness of the products with innovation strategies need to be introduced to consumers. Uniqueness about the added value for the company would not be effective when the consumer does not get information about it. Companies with innovation strategies tend to produce more product than the company with the efficiency strategy. It make impact on the cost incurred for the marketing of such products.

Conversely, a company with an efficiency strategy tends to reduce costs in order to increase the efficiency of the company. The products with the efficiency strategy are likely to be more homogeneous and standards. These products are easily recognized by consumers because of their life cycle tends to be longer. This will have an impact on decrease the marketing costs. Based on the explanation below, the following hypothesis is stated:

H1a: marketing ability have positive effect on the performance of foreign subsidiaries.

H1b: marketing ability have positive effect and greater on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy.

Expertise And Performance Management

Management skills become one of the firm specific advantages. Management skill is not only related to the ability of managers to run the company efficiently, but also how managers are able to see long-term opportunities for the company. Sambasivan et al., (2009) demonstrated management expertise has a strong relationship with opportunity recognition capabilities. Therefore, the ability of managers not only improve the performance of the company for the short term. Managers who are able to see opportunities in the future will be able to improve the performance of the company for the long term.

Visionary management is able to see what is needed in the long term so that they can appropriately make the required investment. It is important for the company's innovation strategy. Innovation strategy requires investment in research and development (Mia & Clarke, 1999) which is a long-term investment in order to compete with its competitors. The company with the innovation strategy is expected to gain first mover benefits with long-term investment. This is due to the company with a strategy of innovation tend to choose industries that have a large market so it is important to position yourself uniquely and meet demand with innovative products (Porter, 1985).

Conversely, a company with efficiency strategies tend to produce relatively homogeneous products and a longer life cycle. So that managers at companies with efficiency strategies only focus on how to run more efficient company, for example, with the pursuit economies of scale production facilities, controlling overhead costs, and minimize the cost of research, and advertising services (Porter 1985). This is because the company performance with efficiency strategy related to its ability to improve the efficiency of the company. Based on the explanation below, the following hypothesis is stated:

H2a: The management ability has positive effect on the performance of foreign subsidiaries.

H2b: The management ability has positive effect and greater on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy.

Company Size And Performance

The size of company reflects the company's development. Companies that are able to compete and demonstrate good performance will be developed both in terms of assets, capitalization of capital, and the workforce. Sizes provide opportunities and challenges to be faced. According to Watts and Zimmerman (1978), firm size may affect the level of political costs faced by companies. The larger the size of the company will increase the political costs.

However, large companies have sufficient capital capitalization to internalize all of the main activities, both R & D, production, and marketing.

A large number of assets will decrease if the assessed value of the company from the owners of the company because they have to face greater political costs. However, when viewed from the side of management, large asset will provide ease in controlling the company to enhance shareholder value. At the company's ability to adopt a strategy of innovation funding and asset becomes an important factor to conduct research and development activities (Porter, 1980). Those activities which generate the uniqueness and exclusivity of innovative products that determines the long-term performance.

But for companies that adopt efficiency strategy, size of the company will provide additional cost will affect their performance. As disclosed Watts & Zimmerman (1978), firm size may affect the level of political costs faced by companies. Additional costs such as these are always trying to avoid for companies who adopt efficiency strategy. Porter (1985) describes the company with efficiency strategies perform rigorous cost control, controlling overhead costs, and cost minimization in areas like research and development, service, sales force, and advertising. This may imply that the political costs faced as a result of the development of the company size will have an impact on company performance.

Based on the explanation below, the following hypothesis is stated:

H3a: Firm size has positive effect on the performance of foreign subsidiaries.

H3b: Firm size has positive effect and larger on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy.

Independent Commissioner And Performance

Independent commissioner is a commissioner from outside the organization who assigned to supervise a company or organization. Independent commissioner appointed by the shareholders as monitors the operations of the company. Supervision is carried out by the commissioner will be able to reduce or eliminate behaviors that managers prioritize personal interests rather than the shareholders interests. In addition, these controls are expected to be able to make the company work more efficiently and ultimately improve the performance of the company.

Independent commissioner gives greater influence on the efficiency of the company with a strategy for the product on the company with a strategy of efficiency is standard. This allows control of the output is done by an independent commissioner to run more effective because companies are more dominant performance related to how efficiently the company is able to run activities (Gani & Jermias, 2006). By using control result, these companies can improve efficiency by eliminating need to incur additional costs and improve the transparency of managerial behavior.

Unlike the previous explanation, the performance of companies with more innovative strategies associated with long-term investments that tend to be more at risk. Manager is on companies with innovative strategies are required to create an unique product that gives a higher risk of failure. This causes the output control only effective for short-term and compromising the long-term performance of the company. Gani & Jermias (2006) describes the output control on the company's innovation strategy may increase efficiency of the company, but it does have an impact on the manager's reluctance to make long-term investments at risk.

Based on the explanation below, the following hypothesis is stated:

H4a: Independent Commissioner have a positive effect on the performance of foreign subsidiaries.

H4B: Independent Commissioner have positive effect and greater on the performance of the foreign subsidiaries with efficiency strategy compared with the company's innovation strategy.

Debt levels and Performance

The debt level of the company is one of the mechanisms control over the management of opportunistic behavior (Jensen, et al., 2002). Debt forcing companies to pay principal and interest, thereby reducing the free cash flow and reduce incentives for managers satisfy themselves behave. Free cash flow or free cash flow is cash that can be distributed over the company to creditors or shareholders are no longer needed for working capital or investment in fixed assets (Ross et al., 2000). Free cash flow is the cash flow that the company has not invested profitably. Cash will usually lead to a conflict of interest between managers and shareholders. Large free cash flow will lead to incorrect behavior of managers and decision hurt the company.

Jermias (2008) using the company's business strategy contextual variables to examine the impact of debt levels on the performance of the company. The study explains that the debt level affects the performance of larger and negative on the company's innovation strategy compared with the efficiency of the strategy. Performance on the efficiency of the strategy is influenced by the ability of the company to improve efficiency so that the impact of debt does not greatly affect to performance. However, the company's innovation strategy requires greater funds to make long-term investments that will generate product exclusivity, so that limited funding will affect its performance significantly. Based on the explanation below, the following hypothesis is stated:

H5a: Debt levels affect negatively to the performance of foreign subsidiaries.

H5B: Debt levels has negative effect and greater on the performance of the foreign subsidiaries with corporate innovation strategy compared with a strategy of innovation.

Research Methods

Population And Sample

The population used in this study is a foreign subsidiary in Indonesia, which is listed in the Indonesia Stock Exchange in 2012. Foreign subsidiaries used is a foreign subsidiary joint (international joint ventures). Criteria foreign subsidiaries were used to follow the joint research from Siripaisalpipata & Hoshino (2000), and Yiu & Makino (2002) that firms with foreign ownership of at least 20% and a maximum limit of 95%. Ownership limit of 20% or more is used as the accounting investor is considered to have a significant influence and have control over who receives investment company (the investee).

Data

The data used in this study is entirely external secondary data, i.e data is obtained in the form of data that has been collected, processed and published by others, namely the Indonesia Stock Exchange and is obtained through its website (www.idx.co.id).

Operational definitions

Performance of foreign subsidiaries.

Performance of foreign subsidiaries can be measured using objective and subjective criteria (Nguyen, 2011). Objective criteria based on financial indicators that use accounting-based measures such as Rugman (1981), Lecraw (1983, 1984) and Rugman et al. (1985). While subjective criteria are used when the data that supports the objective criteria are difficult to obtain. Brouthers (2002) reveals the difficulty to obtain objective subsidiary performance (Brouthers, 2002). Several previous studies using cost management, technology licensing fees, royalties and transfer pricing to measure subjective performance (Geringer & Herbert, 1991).

The sample in this study using foreign subsidiaries listed in the Indonesia Stock Exchange in 2012 It is easier to get a foreign subsidiary performance data so the objective criteria used in this study, in the form of Return on Assets (ROE).

Marketing Capabilities

Marketing capability is the ability of the company to enhance shareholder value by building strong relationships with consumers. Marketing capabilities to be one of the factors that affect the performance of the company, which is a good marketing performance will improve overall company performance.

Measuring instruments used for marketing capabilities in this study is a proxy for the intensity of marketing follow Grubaugh (1987). Systematically marketing intensity can be calculated using the following formula:

Management Capabilities

Management capabilities are not only related to the ability of managers to run the company efficiently, but also how managers are able to see long-term opportunities for the company. Nguyen (2011) mentions management skills as one of the firm-specific advantages.

Efficiency is accomplished by the method of data envelopment analysis (DEA). Measurement efficient companies can be calculated using the following formula:

With restrictions:

Specification:

θ = the value of the company's efficiency k

U_i = weight of output i produced by the company k

Y_{ik} = amount of output k i of the company and is calculated from $i = 1$ to s

V_j = weight used in the company

X_{jk} = amount of input j of company k and is calculated from $j = 1$ to m

The equation above shows that the highest level of efficiency of enterprise value is 1 and the value will always be positive. Efficiency measurements performed with the DEA method that compares the output produced with the required input. Inputs used in this study is total assets, total labor, COGS days in inventory, and days sales outstanding, while the output used is sales. This method is used because it has been successfully used to measure efficiency in various fields. The unit of analysis used in the DEA called the decision making unit (DMU). The efficiency of the entire DMU compared using the same input and output and generating efficiency value between 0 to 1 value efficiency approaching a value of 1 indicates that the DMU is inefficient. In contrast, the efficiency of DMU which has a value close to the value of 0 indicates that the DMU is inefficient.

The size of the company

The size of the company not only reflects the company's ability to mass production, the size also reflects the company's success in developing the company. Several studies using firm size as one of the company specific advantages. Measuring instrument used to measure the company in this study follows the Horst (1992) that the value of corporate assets.

Independent Commissioner

Independent commissioner was measured by using the ratio between the independent commissioners divided by the total board of commissioners. Independent commissioner described the explanation of Article 118 paragraph (2) of Law No. 40 of 2007 on limited liability as a commissioner from outside the company.

The independence of the board of commissioners be seen from the ratio of an independent commissioner toward commissioners who are in the annual

report of foreign subsidiaries in 2012 Annual report was obtained from the website of the Indonesia Stock Exchange (www.idx.co.id)

Level Of Debt

The level of debt shows the company's obligation to pay principal and interest to creditors. The level of debt will increase because of management control mechanisms are not only responsible and supervised by the shareholders, but also creditors. Loan agreement requires the company to pay a sum of money to the lender will reduce your chances of opportunistic managers to act.

Debt levels were measured by using the ratio between total debt (short-term debt + long term debt + other debts) to total assets (Jermias, 2008)

Corporate Strategy

The advantages of a company resulting from the proper strategy. This strategy creates added value for the companies that support the performance when competing with competitors. Porter (1985) suggested that the company may choose to become a provider of a product at the lowest price in the industry (cost efficiency strategy) or to become a provider of unique and innovative products (innovation strategy).

Measurement is done by comparing the company's strategy between asset utilization efficiency capability with premium price. Asset utilization efficiency shows how strategically important for the company's operational efficiency. Companies that use the strategy of asset utilization efficiency will have a higher efficiency since they they tend to operate in a stable environment, which produce standard, and uses a standard SOP so that these companies tend to enjoy high stability (Gani and Jermias, 2006) . Capability Premium Price shows how much the company's ability use premium price. Companies with a tendency innovation strategies tend to produce unique products and services that allow them to charge a fee to consumers (Anggraita, 2013).

Systematically asset utilization efficiency capability and premium price can be calculated using the following formula:

asset utilization efficiency = (Total Sales) / (Total Assets)

Premium price capability = (Gross Margin) / (Total Sales)

Subsequent corporate strategy with top rank value of assets utilization efficiency capability and premium price. Rating of the last two values were averaged. Then the median value is used to divide the strategies that can be known tendency of corporate strategy compared with other companies.

Regression equation models were used in this study are as follows:

Y = performance company

α = constant

b1-b9 = regression coefficient

X1 = marketing capabilities

X2 = Expertise management

X3 = Size Company

X4 = Independent Commissioner

X5 = Level of debt

Z = the company's business strategy

X1-X5.Z = Interaction variable independent of the company's business strategy

e_i = error term, the error rate estimators research

Regression analysis is used to answer the hypotheses H1a, H2a, H3a, and H4a proposed. Hypothesis is accepted if the value of the coefficient of the independent variables show positive results. For hypothesis 5a, the hypothesis is accepted if the value of the coefficient of the independent variables showed negative results.

The results of moderated regression analysis is used to answer the hypotheses H1b, H2b, H3b, H4B, and H5B proposed. For hypothesis 1b, 2b, 3b and 5b, the hypothesis is accepted if the value of the coefficient of the independent variable (X) plus the interaction coefficient (X * Z) is greater than the value of the coefficient of the independent variable (X). For hypothesis 4b, the coefficient of the independent variable (X) is greater than the value of the coefficient of the independent variable (X) plus the interaction coefficient (X * Z) shows that the hypothesis is accepted.

Results And Discussion

Description Of Sample

This study took a sample of foreign subsidiaries in the manufacturing sector, which is listed on the Indonesia Stock Exchange in 2012 Criteria foreign children in particular is a company whose shares are owned by foreigners by 20% until 95%. Value of share ownership is a form of cooperation of foreign companies with local partners to establish subsidiaries. Based on purposive sampling technique obtained a sample of 48 foreign subsidiaries in the manufacturing sector. The details of the number of companies that obtained using purposive sampling technique is as follows:

[Insert Table 1 here)

Results of Descriptive Analysis

Descriptive statistics discussed the general overview of variables to be used. In this study the dependent and independent variables used are the dependent variable in the form of Return on Assets (ROA). The independent variable is the ability of marketing, management expertise, size of company, an independent commissioner, and the debt level summary descriptive statistics of the study variables can be seen in the table below:

[Insert Table 2 here)

Table 5.2 showed that tonly variable that has a greater value ROA standard deviations than the mean. This shows that the percentage ROA sample firms have varying magnitudes. For other variables, the standard deviation value is smaller than the average value which indicates that a variable percentage of the sample firms have almost the same magnitude.

Hypothesis Testing Results

This section contains an explanation of the statistical output hypothesis testing. In addition to an explanation of output statistics, this section also testing the goodness of fit and the discussion about whether or not the prediction is supported in the hypothesis. Goodness of fit testing is done to determine the feasibility of a regression model that can be seen from the coefficient of determination. The coefficient of determination shows how much variation in the dependent variable that can be explained in the independent variable

[Insert Table 3 here)

Adjusted R-squared value on the chart indicates the number 0.285. This shows that 28.5% of the performance of foreign subsidiaries can be explained by the independent variables used in this study, the ability of marketing, management expertise, size of company, an independent commissioner, and the level of debt. The remaining amount of 71.5% influenced by other variables that can not be explained by our model.

The test results of the regression model of the factors affecting the performance of foreign subsidiaries in Indonesia is shown in the following table:

[Insert Table 4 here)

In this study used regression model as follows:

$$Y = \alpha + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 + b_9x_9 + b_{10}x_{10} + b_{11}x_{11} + e_i$$

Having regard to the regression model and the results of the linear regression equation obtained factors affecting the performance of foreign subsidiaries in Indonesia as follows:

$$Y = -0.077 + 0,034X_1 + 0,167X_2 + 0,394X_3 - 0,096X_4 - 2,096X_5 + 0,408X_6 + 0,493X_7 + 0,193X_8 - 0,427X_9 + 2,637X_{10} + 0,018X_{11}$$

Based sig in the table above, the coefficients of the variables were significant effects on ROA is the management expertise and the level of debt because the value is below 5%. This shows that only two variables that significantly affect ROA.

Marketing capabilities have a positive direction and in accordance with the hypothesized but not significantly. Firm size also has a positive and appropriate direction hypothesized but not significantly. Furthermore, an

independent commissioner have a negative direction and in accordance with which it has been hypothesized but not significant. The influence of the interaction between the independent variables and the strategy the company has no significant effect.

Discussion

The result of a discussion on the data that has been obtained in this section. Further systematic discussion arranged in sequence with reference to the formulation of the problem posed.

Effect of Marketing Capabilities on Performance of Foreign Subsidiaries

Hypothesis 1a proposed is the ability have positive influence on the performance marketing subsidiary in Indonesia. The result showed that the effect of marketing capabilities showed significant results on the performance of the company. The results obtained significance value of 0.896 is greater than $\alpha = 0.05$. Hypothesis 1a stating that the positive effect of marketing capabilities toward performance of foreign subsidiaries in Indonesia is not supported by the results of testing that has been done.

The results of testing the hypothesis 1a in accordance with previous studies conducted Afzal (2009) which states that there is no significant relationship between marketing capability is proxied by the intensity of the performance marketing company. The reason why marketing capabilities no significant effect on the performance of foreign subsidiaries due to the intensity of competition among companies for grabs potential available market is increasing. The high competition among companies cause every company trying to introduce its products to consumers. Consumers have various references to a product that has been introduced by any company resulting in the introduction of marketing only as an instrument of products to consumers while consumers have a variety of other considerations to choose the type of product that has been known. Therefore, the ability of the company's marketing does not significantly affect the performance of xxx

Influence Marketing Capabilities Against The Foreign Subsidiary Performance Moderated By Business Strategy

Hypothesis 1b proposed corporate capabilities and greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy. Assessment of the effect of marketing capabilities and its interaction with the strategy showed significant results on the performance of the company. The results obtained significance value of 0.558 is greater than $\alpha = 0.05$. Hypothesis 1b stating that the ability of the company and a greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy is not supported by the results of testing that has been done.

The reason why the marketing capabilities and its interaction with the strategy had no significant effect on the performance of foreign subsidiaries due to run any business strategy - both efficiency and innovation strategy - the company still needs marketing. The role of marketing in introducing the product to the consumer became dominant because of the intensity of competition between companies. Consumer consideration when choosing a product based on its knowledge of the products are to be chosen so that a company with a strategy of innovation and efficiency are equally in need of marketing capabilities.

Influence on Performance Management Expertise Foreign Subsidiaries

Hypothesis 2a proposed that management expertise have positive effect on the performance of subsidiary companies in Indonesia. Assessment of the effect of management skills showed significant gains on firm performance. The results obtained significance value of 0.050 as great of $\alpha = 0.05$. Hypothesis 2a stated that the positive effect of management expertise toward performance of foreign subsidiaries in Indonesia is supported by the results of testing that has been done.

The results of testing the hypothesis 2a in accordance with previous studies conducted Carmeli and Tishler (2004) which states that the managerial capabilities and performance of the company has a positive relationship. The reason why the positive effect of management expertise on the performance of foreign subsidiaries due to its ability to see opportunities in the future. Companies that move first to seize opportunities in the future will benefit that will affect performance. Introduction to opportunities in the future is also moving companies to more effectively and efficiently so as to divide its resources for the benefit of current and future time.

Influence on Performance Management Expertise Foreign Subsidiary Which Moderated By Business Strategy

Hypothesis 2b proposed is management expertise and a greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy. Assessment of the effect from management expertise and its interaction with the strategy showed significant results on the performance of the company. The results obtained significance value of 0.158 is greater than $\alpha = 0.05$. Hypothesis 2b stated that the management skills and a greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy is not supported by the results of testing that has been done.

The reason why the management expertise and its interaction with the strategy had no significant effect on the performance of foreign subsidiaries due to an important role for the management of the company. Strategy is one form of policy decided by management that affect a company's performance. In addition, the strategy is needed by every company in order to compete and

create competitive advantage so the management skills needed by all companies in a variety of strategies.

Effect of Company Size on the Performance of Foreign Subsidiaries

Hypothesis 3a proposed is positive effect of firm size on the performance of subsidiary companies in Indonesia. Testing the effect of firm size showed no significant results on the performance of the company. The results obtained significance value of 0.318 is greater than $\alpha = 0.05$. Hypothesis 3a stated that the positive effect of firm size toward performance of foreign subsidiaries in Indonesia is not supported by the results of testing that has been done.

The results of testing the hypothesis 3a in accordance with previous studies conducted Kalkan et al. (2011) which states that there is no significant relationship between firm size and firm performance. The reason why the size of the company does not have a significant effect on the performance of the company because the size of the company has on the cost of political risk. The larger the company will bear the political costs greater. The size of the company also has a parabolic curve which after reaching the maximum point will return decreases causing decreased performance of the company.

Effect of Company Size on the Performance of Its Foreign Subsidiaries Moderated By Business Strategy

Hypothesis 3b proposed that the size of the company and a greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy. Assessment of the effect of management expertise and its interaction with the strategy showed significant results on the performance of the company. The results obtained significance value of 0.126 is greater than $\alpha = 0.05$. Hypothesis 3b which states that the size of the company and a greater positive effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy is not supported by the results of testing that has been done.

The reason why the size of the company and its interaction with the strategy had no significant effect on the performance of foreign subsidiaries because each company has a point of maximum efficiency will affect the performance. After passing the maximum limit, the company will tend to be inefficient - both for companies with innovation and efficiency strategy.

Effect of Independent Commissioner Against Foreign Subsidiary Performance

Hypothesis 4a proposed is independent commissioner positive effect on the performance of subsidiary companies in Indonesia. Testing the influence of independent commissioners showed no significant results on the performance of the company. The results obtained significance value of 0.736 is greater than $\alpha = 0.05$. Hypothesis 4a stated that independent commissioners positive effect on the performance of foreign subsidiaries in Indonesia is not supported by the results of testing that has been done.

The results of testing the hypothesis 4a in accordance with previous studies conducted de Andres et al. (2005) which states that there is no statistically significant relationship between the composition of the board of commissioners and the performance of the firms in the OECD countries. Even Klein (1998) states that the proportion of independent commissioners considered excessive. The reason why the independent commissioner did not significantly affect the performance of foreign subsidiaries due to independent commissioners ratio to total board of commissioners in a foreign subsidiary in Indonesia does not reflect their needs. Companies listed on the Indonesian Stock Exchange are required to have at least 30% of the total number of independent commissioners. This policy encourages companies to put independent commissioners only as a way to meet the regulations, which in turn has the consequence that the role of an independent commissioner was not optimal and does not affect the performance of the company.

Effect of Independent Commissioner Against The Foreign Subsidiary Performance Moderated By Business Strategy

Hypothesis 4b proposed independent commissioner and a greater positive effect on the performance of the foreign subsidiaries with efficiency strategy compared to a strategy of innovation. Testing the influence of independent commissioners and their interaction with the strategy showed significant results on the performance of the company. The results obtained significance value of 0.567 is greater than $\alpha = 0.05$. Hypothesis 4b stated that an independent commissioner and have a greater positive effect on the performance of the foreign subsidiaries with efficiency strategy compared to the innovation strategy is not supported by the results of testing that has been done.

Test results on the hypothesis 4b is not in accordance with previous studies conducted by Gani & Jermias (2006) which states that companies with efficiency strategies gain greater benefit from the higher ratio of independent commissioners compared with the company's innovation strategy. The reason why the independent commissioner and its interaction with the strategy had no significant effect on the performance of foreign subsidiaries due to the obligation to have the commissioner at least 30% of the total board of commissioners that is applied to all companies listed on the Stock Exchange of any business strategy. This requirement tends to encourage companies to put independent commissioner just as the eligibility maximal impact on the expected role of the control of an independent commissioner to be able to improve the performance of the company. Maximal independent commissioner role in the control of any company with any business strategy results in the loss of the influence on the performance of the company.

Effect of Debt to Foreign Subsidiary Performance

Hypothesis 5a proposed level of debt is negatively affecting the performance of subsidiary companies in Indonesia. Assessment of the effect of

debt levels showed significant gains on firm performance. The results obtained significance value of 0.037 which is smaller than $\alpha = 0.05$. Hypothesis 5a which states that the level of debt a negative effect on the performance of foreign subsidiaries in Indonesia is supported by the results of testing that has been done.

The results of testing the hypothesis 5a in accordance with previous studies conducted Zeitun and Tian (2007) which states that the level of debt the company had a negative impact on corporate performance are assessed based on the value of the book. The reason why debt levels and significant negative effect on the performance of foreign subsidiaries because the level of debt the company would reduce the flexibility of the company. The existence of a debt contract that requires the company to execute the contract within the agreed terms of the debt and interest payments each year will affect the performance of the company. In addition, companies with high levels of debt will trigger managers to avoid risky projects.

Effect Of Debt Against The Foreign Subsidiary Performance Moderated By Business Strategy

Hypothesis 5b proposed the level of debt and a greater negative effect on the performance of the foreign subsidiaries with corporate innovation strategy compared with a strategy of innovation. Testing the influence of the level of debt and its interaction with the strategy showed significant results on the performance of the company. The results obtained significance value of 0.961 is greater than $\alpha = 0.05$. Hypothesis 5b which states that the level of debt and a greater negative effect on the performance of the foreign subsidiaries with innovation strategy compared with the efficiency of the strategy is not supported by the results of testing that has been done.

Test results on the hypothesis 5b is not accordance with previous studies conducted by Jermias (2008) which states that the effect of the level of debt on firm performance is negative and greater in companies with enterprise innovation strategy compared with the efficiency of the strategy. The reason why the level of debt and its interaction with the strategy had no significant effect on the performance of foreign subsidiaries due to the impact of debt holdings equal consequences for the entire enterprise of any business strategy. High levels of debt will limit the space for management to make investments that may be a positive impact on its performance in the long term. These barriers will tend to encourage the management to avoid investments that have a financial risk so that any company with high levels of debt will be more likely to avoid the risks that have an impact on financial performance is relatively stable from year to year.

Conclusion, Limitations, And Advice

Conclusion

The results of this study concluded that the performance of foreign subsidiaries in Indonesia is determined by several factors and one of them is the company specific advantages. This study proves that the management skills affect the performance of foreign subsidiaries in Indonesia. Because management is able to identify opportunities and maximize the resources of the company will result in a good performance at the company. In addition, this study also proves that the level of debt a negative effect on the performance of foreign subsidiaries in Indonesia. Due to the higher level of debt that the company will reduce its openness is limited by contractual agreements with creditors and its obligation to pay principal and interest charges that would reduce the performance of the company.

This study also proves that marketing capabilities, firm size, and independent commissioner has no effect on the performance of foreign subsidiaries in Indonesia. Marketing capability does not affect the performance of foreign subsidiaries in Indonesia because the company has been listed on the Stock Exchange, the products of the company has been recognized by the company so that the marketing is done by the company does not affect its performance. Firm size does not affect the performance of foreign subsidiaries in Indonesia because of the company's performance is not determined from large or small companies, but how the company is able to maximize their resources to produce maximum performance. The size of the company will be able to provide a variety of advantages such as providing funding of up to a certain point which can improve the performance of the company. After passing the limit is the size of the company will be a burden for the company that will bring operational inefficiency of the company. Independent Commissioner does not affect the performance of foreign subsidiaries in Indonesia because its role is not optimal. The existence of an independent commissioner is not specified in the demand, but rather as the fulfillment of a condition that requires companies listed on the Stock Exchange to have a minimum of 30% of the total independent commissioners commissioners.

The company's business strategy proved to be a significant influence and failed to moderate the relationship between the independent variables and the dependent variable used in this research. Strategy that foreign subsidiaries have not a significant role and show the strategic role of foreign subsidiaries are still not optimal. This may be caused by the formulation of the strategy is still the domain of the parent company.

Limitations Of Research

Researchers realize there are limitations to this study. First, this study used secondary data to determine strategies that run the company. Strategy is a complex process that needs to know the depth of understanding of the strategy undertaken by the company.

Secondly, the ability of marketing used in this study are based on proxy marketing intensity is calculated using the administrative burden, general, and sales divided by total sales. The use of general administrative expense and risk that the sale has no load is not used for marketing included in the calculation.

Third, this study only uses the size of the company's performance based solely on the value of accounting. It is the risk of bias were deliberately created by the company in order to impress the company has a good performance.

Suggestion

Suggestions researchers for further research relating to the topic and the subject of the same study are the first, subsequent studies could use primary data to be able to more deeply to be able to know the different variables used in the study. This can be done by interview or questionnaire to the ranks of top management. Researchers then can also use primary data to measure marketing capabilities aimed at both the enterprise and consumer. In addition, further research could also simultaneously using performance assessment based on the book value and market value. This is to reduce the risk of each way of performance appraisal where the book value bias of the risk management and market value of the risk of bias noise from similar industries.

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Lampiran

Tabel 1

Sampel Penelitian

Kriteria Sampel	Jumlah
Perusahaan manufaktur tahun 2012	: 152
Perusahaan dengan kepemilikan saham asing dibawah 20%	: (92)
Perusahaan dengan kepemilikan saham asing diatas 95%	: (1)
Perusahaan yang menggunakan mata uang asing	: (11)
Total Sampel	: 48

Tabel 2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
x1	48	,02	,67	,1677	,15713
x2	48	,02	1,00	,5020	,27569
x3	48	9,27	17,90	14,2330	1,62595
x4	48	,25	,80	,3925	,10442
x5	48	,03	1,03	,4306	,23678
z	48	0	1	,50	,505
ROA	48	-,21	,40	,0877	,13390

Tabel 3

Pengujian Goodnes of Fit

R	R Square	Adjusted R Square	Std. Error of the Estimate
,673^a	,452	,285	,11322

Tabel 4

Hasil Uji Regresi

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,077	,255		-,302	,765

x1	,029	,217	,034	,132	,896
x2	,192	,095	,394	2,024	,050
x3	,014	,014	,167	1,013	,318
x4	-,123	,364	-,096	-,339	,736
x5	-,231	,107	-,408	-2,165	,037
z	,555	,453	2,096	1,225	,228
x1z	-,168	,284	-,193	-,592	,558
x2z	,227	,158	,493	1,442	,158
x3z	-,048	,031	-2,637	-1,565	,126
x4z	,249	,432	,427	,577	,567
x5z	-,009	,184	-,018	-,049	,961

**THE IMPLEMENTATION OF GOOD CORPORATE
GOVERNANCE AND ITS IMPACT ON THE FINANCIAL
PERFORMANCE OF BANKING INDUSTRY LISTED IN IDX**

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Abstract

A lot of researches have studied good corporate governance implementation in manufacturing companies; this research, however, is more focusing in banking industry. Since bank holds important key role in the economics, bank needs a good governance to get a good reputation to play its role well. This research was conducted using secondary data obtained from annual reports of banking companies listed in the Indonesia Stock Exchange for the year 2008 until 2012. The data was analyzed using multiple regression method. The result showed that foreign ownership, board size, and external auditor, as corporate governance variables, partially and significantly affect bank financial performance, while large shareholders, government ownership, commissioner size, independent commissioner proportion, and capital adequacy ratio are found to insignificantly affect bank financial performance. Furthermore, firm size as controlling variable, is insignificantly affect the relationship between corporate governance variables and bank financial performance.

Keywords: Corporate governance, financial performance, banking industry, agency theory

I. Introduction

Banks hold important key roles in economics as an intermediary role between a creditor and debtor. Bank also gives both creditors and debtors assurance. Bank assures the creditors that the money they have invested will go back to them and also there is incentive for investing their money. By having the assurance and incentives people willing to invest their money in bank. Bank also helps debtors in giving loan to them. Of course the debtors must pass investigation before they get the loan to make sure that they will responsible with and pay for the loan.

In doing their roles perfectly, banks must get people to trusts them. People will not easily invest their money unless they know of the bank reputation. People may put interest rate as their consideration but mainly and firstly they will look at the bank's reputation, whether there is criminal case pertaining to the bank or other case that affects bank's reputation. In order to have good reputation, bank has to implement what it is called as good corporate governance. Corporate governance refers to by how the companies are governed or run (Bevir, 2007:165). It includes the principles used as the basis in governing or running a company. If the principles are not fit with the company, then the company cannot run well; or if the principles are not well created, then there will be a lot of problems occur when the business process is going. Corporate governance also refers to the ways of a company or a firm is governed in which the shareholders of the firm can assure themselves that they will get an adequate return on their investment (Clegg and Bailey, 2008:297). Furthermore, shareholders must make sure that the company performs well in all aspects.

Asian Development Bank (ADB) stated that the crisis happened in Indonesia, Malaysia, Thailand, the Philippine, and South Korea were caused by the failure in implementing good corporate governance. The research was conducted by the Asian Development Bank resulted that the implementation of good corporate governance in Indonesia still relatively low. Indonesia got 43.4% for the average score, in a range of 75.4% for the maximum and 20.8% for the minimum score. This low score is caused by few things. First, the companies only do what it has been mandated, and most of the companies may not refer to the code and thus they are not aware to the corporate governance. Second, the majority of the companies do not comply with the rules. (ADB, 2013)

There is a regulation for bank especially concerning about good corporate governance published by the Bank Indonesia (the Indonesian Central Bank) namely Peraturan Bank Indonesia (the Bank Indonesia Regulation) No. 8/4/PBI/2006 about the Implementation of Good Corporate Governance for Conventional Bank. Another regulation is the Peraturan Bank Indonesia (the Bank Indonesia Regulation) No. 11/33/PBI/2009 about the Implementation of Good Corporate Governance for Syariah Conventional Bank and Syariah Unit Business. These regulations are published in order to increase bank's performance, safeguard the stakeholders, and increase the conformity with the law and regulations. If bank performs in conformity with the law and regulations, the bank will not get included in criminal cases, and the bank gained more customers because people know that the bank is healthy. The more customers come to invest the money, the higher performance of the bank would be.

Many previous researches were conducted concerning the relationship between good corporate governance and financial performance, and most of them were done in manufacturing industry or using go public companies. Research by Ujiyantho and Pramuka (2007) about The Mechanism of Corporate Management, Earnings Management and Financial Performance concluded that there is no significant influence in the relationship between institutional and earnings management and also the relationship between board size and earnings management. Moreover, managerial ownership and the presence of independent director had significant influence to earnings management. Simultaneously, institutional ownership, managerial ownership, the presence of independent director, and board size had significant influence to earnings management, and earnings management had not significant influence to financial performance.

CheHaat et al. (2008) conducted a research on corporate governance, transparency and performance of Malaysian Companies. This research used transparency as mediating variable between corporate governance and performance. The research found that corporate governance factors are significantly affect company performance, and that performance is not associated with the level of disclosure and timeliness of reporting.

Another research by Haryani et al. (2011) talked about the effect of corporate governance on the performance with transparency as the intervening variable. The result showed that only external mechanism form of audit quality of BIG4/non-BIG4 affects firm performance and

corporate governance transparency. Transparency is not proved to be an intervening variable in the influence of corporate governance mechanisms on firm performance.

This research, moreover, will examine the effect of the implementation of good corporate governance on the financial performance of banking industry. Variables will be tested in are ownership monitoring mechanism consists of large shareholders, foreign ownership and government ownership; internal control monitoring mechanism consists of board of director size, board of commissioner size and independent commissioner proportion. Regulatory monitoring mechanism is shown at capital adequacy ratio (CAR); and disclosure controlling mechanism is shown by external auditor. This research use Cash Flow Return on Assets (CFROA) as a tool to measure the financial performance of bank industry, namely the ability of the company's asset to get operating revenue. The reason why CFROA is used in this research is because CFROA put more focus on current performance measurement and the measurement is pure from the operations, not affected by stock price (Cornett et al., 2006).

This paper is structured as follows: in the next section, the literature review for corporate governance mechanisms, financial performance and the relationship between corporate governance and financial performance will be discussed. The following section will discuss the hypotheses development, followed by the third section that discuss the methodology used in this research. Finally, the fourth section will describe the research result that lead to the conclusion, limitation, and suggestion.

II. Literature Review

Agency Theory

Agency theory is a condition where two parties are engaged in a contract, in which one party authorized the other party to do something related to the firm organization on their behalf (Jensen and Meckling, 1976). Agency theory postulates that a lot of contracts between the principals and agents in the firm exist, in which, the agents are authorized and charged to manage and control the resources that the principals have in the company (Adams, 1994). Moreover, agency problem appears when principal can hardly assure that the agents (managers) do things in order

to maximize principal's (owners) wealth (Midiastuty and Machfoedz, 2003). Managers and principals have their own interest, and most of the times their interests are different to each other. For instance: managers want to get large compensations and salary for their work which will reduce company's profit and of course it will also reduce the dividend that will be distributed to the stockholders. On the contrary, when principals want to gain higher dividend it will reduce the compensations and salary of the managers. Consequently, sometimes managers will do things that fulfill their interest instead of principal's interest. Managers know more information about the company, general information and company's future information than the principal; because the managers are the one who operate the company daily. This causes the imbalanced information possessed by the managers and principals called as asymmetric information which will benefit managers rather than the owners.

Good corporate governance is one of tools to get rid-off conflict of interest between the two (Midiastuty and Machfoedz, 2003). Corporate governance is expected as a tool to give assurance to the investors or principals that they will get return for their investments, and that the managers will not corrupt or invest principal's money to other projects that will not generate profit for the principals, and it relates to how investors or principals control the managers (Shleifer and Vishny, 1997 in Ujijantho and Pramuka, 2007). Eisenhardt (1989) proposed that agency theory uses three assumptions of human behavior, they are: (1) generally human is a selfinterest, (2) human has bounded rationality which means human has limited rationality to predict about the future, and (3) human always avoid risk. Based on these three assumptions, managers as human being will also do things that will benefit themselves and they will always find a way to fulfill their interest which will lead to a possibility where they will do fraud to fulfill their interests. Furthermore, there will be a cost to prevent or to solve an agency, called agency cost, it consists of monitoring cost, bonding cost, and residual loss. Corporate governance is expected to reduce this agency cost.

Corporate Governance

The Indonesian Institute for Corporate Governance defined corporate governance as a mechanism that controls and monitors a company so that the company's operation goes as stakeholders expected. Good corporate governance is a structure, system, and process used by

each part of the company in order to continuously give added value for the company in the long term, but still put attention for other stakeholder interests, based on moral, ethics, culture and other regulations. La Porta et al. (2000) cited by CheHaat et al. (2008) defined corporate governance as a set of mechanisms that will protect the investors against harmful action done by corporate insiders towards their capital in the company. It can be concluded that corporate governance is a mechanism, set of rules, and system which defines the relationship between managers and stakeholders in order to protect the principal from expropriation by the managers, and to ensure that the business is done due to all stakeholders' interests.

Argüden (2013) stated that there are six main principles of corporate governance: consistency, responsibility, accountability, fairness, transparency, and effectiveness. By deploying those principles throughout the organization, corporate governance holds an important key role in creating a successful business and shaping a good behavior in responding pressure from the environment. Surya and Yustivandana (2008:68) proposed that there are few purposes of implementing good corporate governance, such as, (1). Ease the access to either domestic or foreign investments, (2). Get lower cost of capital, (3). Give better decision in increasing and maintaining company's performance, (4). Get more trust from the stakeholders, and (5). Protect board of directors and board of commissioners from lawsuits. If a company applies good corporate governance well, the company will get trust from the investors. The investors are expecting by investing their money in the company, they will get profit and the investment is safe. So, a good corporate governance implementation is an important key to build trust and encourage the investors to invest their money so that the company will have a stable investment flow. A stable investment flow will lead to a good performance.

Based on the research conducted by Zulkafli and Samad (2007) there are four mechanisms of corporate governance that serve to monitor the banking firms:

1. Ownership Monitoring Mechanism
 - a. Large Shareholders

Large shareholders or block shareholders are the shareholders that have power and they have significant effect in making decisions so that they can benefit from minority shareholders as well as prevent expropriation (Mitton, 2002 in Zulkafli and

Samad, 2007). Based on the BI Regulation No. 12/23/PBI/2010, large shareholders are statutory body or persons and/or business group that own shares equal or more than 25% out of the number of shares that are issued, and has voting rights; or own shares less than 25% out of the number of shares that are issued and has voting rights but they can be proved that they controlled the bank either directly or indirectly.

b. Government Ownership

The extensive government ownership leads to the conflict between government as owners/taxpayers and managers who control the bank. Government is closely related to the politics. The investment invested by the government maybe not a hundred percent pure for the investment. There may be other interest such as political interest. Also the managers may do unfavorably actions in order to support the government to get a political career (Zulkafli and Samad, 2007).

c. Foreign Ownership

It is believed that foreign-owned firms will perform better because the standard they have is nearly the same with the foreign firm's standard which usually is better standard. The existence of foreign owned firm will increase the competition because the local firms try to have better performance so that they can win over foreign owned firms. It is hoped that the presence of foreign ownership as an aspect of governance mechanism would be able to enhance firm performance. (CheHaat et al., 2008)

2. Internal Control Monitoring Mechanism

a. CEO Duality

CEO duality is the condition where CEO of the company is also the Chairman of the board. A separation of the two roles can be effective as a control to check and monitor management's performance. If the role of Chairman and CEO is separated, it will increase monitoring quality so that the performance will be better. (CheHaat et al., 2008)

b. Board size

As the study of Cheng (2008) in Praptiningsih (2009), the existence of agency problems because large number of board size can cause the corporate performance changes. Board of directors can help the company to solve agency problems that may exist in the company. Good corporate governance relies on the board of directors. If the boards can manage the firm well, good corporate governance will be well implemented and it will lead to a better corporate performance (CheHaat et al., 2008).

c. Board Independence

Board independence refers to the entry of outsiders into the board. Board independence means that the boards don't have any shares in the company. They are free from the individual interest to get more profit that can be done by unethical things. The monitoring from independence board should be more fair and effective (Adams and Mehran, 2003 in Zulkafli and Samad, 2007).

3. Regulatory Monitoring Mechanism

The banking industry requires a careful analysis of its risk management function because of its high leverage and high-risk characteristics (Zulkafli and Samad, 2007). According to Brigham and Erhardt (2005) in Praptiningsih (2009), the review from the Basel Committee implies that the regulatory monitoring affects performance especially in profitability, through the reserve requirement and or the capital adequacy ratio. Regulatory monitoring through capital adequacy requirement serves as a governance mechanism tool that used to ensure the banks are well capitalized (Zulkafli and Samad, 2007).

4. Disclosure Monitoring Mechanism

a. Big 4 External Auditors

Audit can help the company to apply corporate governance better because all the information about management in the company should be disclosed in the report (Francis et al., 2003; Sloan, 2001 in CheHaat et al., 2008). Based on OECD principles, an auditor plays an important role as a bank supervisor to control the reporting of financial statement and also to improve the corporate performance (Praptiningsih, 2009).

b. Big 3 Rating Agency

Rating announcement gives information to financial markets about the financial health of a bank and this is being reflected by appropriate valuation of bank's stocks. Rating that is given by reputable agencies will also confirm the reputation of the firm (Zulkafli and Samad, 2007). If the firm gets a good rating, it will boost the firm's reputation and more investors will come to invest so that it will increase the firm performance.

The Relationship between Corporate Governance and Financial Performance

Corporate governance mechanisms help the company to assure investors that an adequate return will be obtained if they invest in the company (Shleifer and Vishny, 1997 in CheHaat et al., 2008). If corporate governance mechanisms investors will doubt whether to invest or not and they will rethink about it. Investors of course do not want to suffer a loss because the company is not managed well. If investors do not invest their money, the company will face difficulties in running the business because they have no sufficient funds to run the business. This difficulty will lead to a decreasing of financial performance of the company.

In ownership monitoring mechanism, large shareholders can benefit from minority shareholders by tunneling by means transferring the minority shareholders out of the firm for their own benefits because of their power in the firm. Tunneling harms not only the minority shareholders, but also the whole firm. This of course affects the financial performance of the firms. Government ownership also can lead the manager to do unethical conduct for their own benefit (political position) and the manager may do unfavorable things that will affect firm's performance. Foreign ownership will encourage the firm to do better so that the performance can be better. A lot of research found that foreign-owned firm performs better than local-owned firm.

The boards are responsible to make sure that top managers do things that can create optimal value for shareholders. There are three major duties of board which are creating the business strategy, appointment of senior management, and making sure that information, control, and audit systems are available to monitor and review company's

performance and making decisions (Zulkaflı and Samad, 2007). Looking at the role played by the board of directors, they will also affect the firm performance. If the board of directors can play their role well, the performance of the firm will increase.

Regulatory monitoring mechanism and disclosure monitoring mechanism will encourage the firm to perform better. The firm wants to get a good reputation so the firm will work hard to maintain their performance. The firm also wants to get an unqualified opinion given by the external auditors, so the firm will maintain their performance and will disclose the information needed completely.

III. Hypothesis Development

The Effect of Large Shareholders Ownership to Bank Financial Performance

Large shareholders can take advantages of controlling rights through tunneling to expropriate minority shareholders, but under certain circumstances large shareholders also exhibit propping behavior (Tang et al., 2012). If the firm does not run well, large shareholders tend to invest more to the company. They will inject funds to the firm so that the firm performance increases. Large shareholders also can use their incentive and power to prevent expropriation (Zulkaflı and Samad, 2007). By using their power they can give significant influence in making policies or other decisions. All shareholders expect to get more return on their investment. So, shareholders including large shareholders will make a good policy that can increase firm's performance so that they can get more return. Large shareholders as board of directors can monitor managers' performance so they know whether the managers work well and if something is wrong they can give advice and they can give influence to the managers' decision. By doing this the firm performance will increase. Shleifer and Vishny (1986) found that large shareholders can do more monitoring to the management of the firm, thus can increase the value of the firm. The presence of large shareholders can reduce free-rider problem for minority shareholder. Mitton (2002) stated that large shareholders can prevent expropriation and higher ownership concentration relates to better stock price performance especially during crisis. From the explanation above, thus the hypothesis is formulated as follows:

H1: Large shareholders has significant effect on bank financial performance

The Effect of Foreign Ownership to Bank Financial Performance

Foreign ownership is expected to be one of the ways to make firms in developing countries become better and better by doing direct import of new capital and new technologies (Benfratello and Sembenelli, 2002; Kozlov et al., 2000 in CheHaat et al., 2008). In a developing country like Indonesia, the influence from the firms of developed countries can help domestic countries to be better. New technologies from developed country can make business process more effective and efficient. Effectiveness and efficiency of the business of firms will result in better performance. Boubakri et al. (2003) in CheHaat et al. (2008) found that profitability and efficiency gains are affected by the existence of foreign ownership. Thus the hypothesis can be formulated as:

H2: Foreign ownership has significant effect on bank financial performance

The Effect of Government Ownership to Bank Financial Performance

According to Zulkafli and Samad (2007), the extensive government ownership leads to the conflict between government/taxpayers as owners and the bureaucrats/managers who control the bank. Government often uses its power over the firm to do things in order to reach its political goals which sometimes is not the same as other shareholders' interest which may lead to a conflict. A conflict can lead to the decreasing of firm's financial performance. Conflicts can also appear if the managers do things for the sake of the other shareholders that may not be the same with government's interest. Government ownership manages resources allocation, softens budget constraints, and hinders economic efficiency only for political benefits. Government ownership facilitates the financing of politically attractive projects (Barth et al., 2002). The research conducted by Barth et al. (2002) found that government-owned banks are related to positive outcomes. Thus, the hypothesis formulated for this research is:

H3: Government ownership has significant effect on bank financial performance

The Effect of Board of Directors Size to Bank Financial Performance

Jensen (1983) in Zulkafli and Samad (2007) suggested that having less than seven or eight directors can help the company to have better performance. It is hard to get into conclusion when there are more people join a discussion or meeting. It also happens when a firm has big board of director size. It will take more time to reach a conclusion and to make decisions. It makes the firm perform less efficient and may led to a decreasing performance. Jensen (1983) in Zulkafli and Samad (2007) further argued that increasing in board of director member will make it less effective because of free-riding problem. Makand Li (2001) in Saiful et al. (2012) found that small board size effectively monitor management behavior. A good monitoring of management behavior can lead to a better performance. Thus, the hypothesis can be formulated as:

H4: Board of Directors Size has significant effect on bank financial performance

The Effect of Board of Commissioners Size to Bank Financial Performance

Just like board of director size, the bigger size of board of commissioners, the less effective it is in monitoring managers and firm performance. Larger size of board of commissioners makes it harder to do its function because it is hard to communicate, coordinate and make decisions (Belkhir, 2009). Yermarck (1996) also Lorderer and Preyer (2002) in Pudjiastuti and Mardiyah (2007) found that board size is negatively related to firm performance and firm value. The bigger board size, the firm is less effective. If board size is too big the agency problem tends to be higher. Pudjiastuti and Mardiyah (2007) in their research also found that board of commissioner size negatively affects firm performance. So the hypothesis formulated in this research is:

H5: Board of Commissioners Size has significant effect on bank financial performance

The Effect of Independent Commissioner Proportion to Bank Financial Performance

Independent commissioners are expected to create a balance for various parties' interests such as shareholders, directors, managers, employees, and others. Theoretically and practically, the main job of independent commissioners is to monitor management and make sure that management has done their job well and not make unfavorable decisions and also management has done their job accordingly to shareholders' interests. The result of Barnhart and Rosenstein (1998) in Haryani et al. (2011) proved that the higher independent commissioners, the higher firm performance that is shown by Tobin's Q. Having independent directors can reduce agency costs, it can also gain access to the capital market as well as to ensure accountability in executive remuneration (Lawrence and Stapledon, 1999 in Zulkafli and Samad, 2007). The increasing proportion of independent commissioners on the board will lead to the increasing of firm performance because the independent commissioners can provide effective monitoring of managers (Adams and Mehran, 2003 in Zulkafli and Samad, 2007). Thus, the hypothesis formulated for this research is:

H6: Independent commissioner proportion has significant effect on bank financial performance

The Effect of Capital Adequacy Ratio to Bank Financial Performance

Government plays role as a regulator and supervisor of bank solvability and as an incentive for stakeholders in maintaining the bank performance or implementing corporate governance. Government needs to set rules so that competition between banks can go well. Government also creates investment climate to encourage investors to invest more. Government governs business and transactions to minimize information asymmetry and avoid monopoly. Bank Indonesia as a government representation interfere bank industry using its regulations and policies to monitor bank performance in order to protect depositors and debt holders. Bank firm should disclose various financial ratios in their annual report. This regulation is one of ways to monitor bank performance. One of the ratios that is required to be disclosed is Capital Adequacy Ratio (CAR). This ratio shows whether a bank can absorb a reasonable amount

of loss and complies with statutory capital requirements. Based on the elaboration above, the hypothesis for this research is:

H7: Capital Adequacy Ratio has significant effect on the bank financial performance

The Effect of External Auditor to the Bank Financial Performance

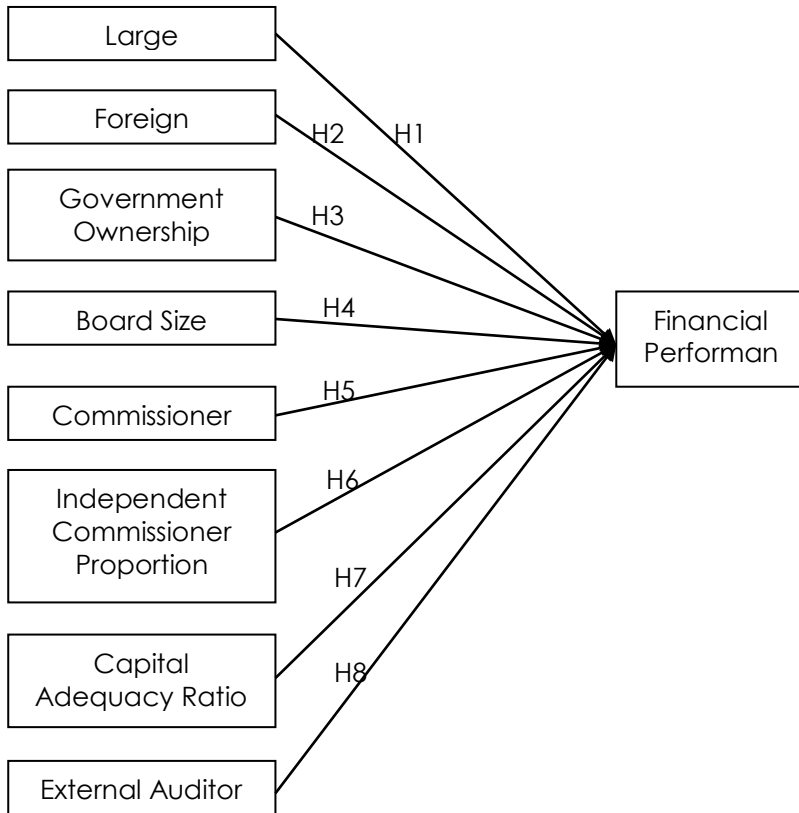
External auditor is not included in the organization structure of a bank or the internal control system, but external auditor affect internal control quality by auditing a firm financial statement, discussing with managers and give recommendation in order to increase internal control quality. According to OECD principles, external auditor plays important role as bank supervisor to make sure that the financial reporting is good. To produce good and reliable financial information, bank should have good system. Good systems in bank will lead to an increase of the financial performance. So, indirectly external auditor affects financial performance. According to Niimimaki (2001) in Zulkafli and Samad (2007), an auditor plays an important role as a bank supervisor to ensure that depositors are informed on financial difficulties that may lead to bank runs. Information asymmetry is identified as one of the unique characteristics in the banking industry. In dealing with asymmetry problem, information disclosures have always played an important role to serve the purpose of monitoring by depositors (Zulkafli and Samad, 2007). Higher disclosure quality may be achieved by appointing reputable external auditors (Mitton, 2002 in Zulkafli and Samad, 2007). From the elaboration above, the hypothesis of this research is:

H8: External auditors has significant effect to the bank financial performance

Based on the hypothesis formulation above, an analysis model can be made to give a conceptual framework for the research so that it can be analyzed and final results can be generated which is has relationship or has no relationship.

Picture 2.1

The Effect of Good Corporate Governance Mechanism to Bank Financial Performance



Controlling variable: Firm size

II. Research Methodology

Sample Selection

Population of this research is all banking companies listed in Indonesia Stock Exchange for the year 2008 – 2012 that fulfill few requirements. The requirements used to determine the sample are:

- a. Banking companies that go public or listed in Indonesia Stock Exchange for the year 2008 – 2012.
- b. The banking companies still operate until 2012.

- c. The banking companies published audited annual financial statement for the year ended December 31 starting from 2008 – 2012.
- d. The bank companies are not determined as bank failure by Bank Indonesia during the research period which is 2008 – 2012.
- e. The bank companies disclose information about corporate governance, ownership structure, financial ratios, and external auditor in the annual report.

Table 3.1: Sample Selection

DESCRIPTION	TOTAL
Banking companies listed in IDX for the year 2008 – 2012	32
The banking companies not included as sample:	
1. Not publish or delisted in 2008	1
2. Not publish or delisted in 2009	-
3. Not publish or delisted in 2010	-
4. Not publish or delisted in 2011	-
5. Not publish or delisted in 2012	-
6. The bank companies determined as bank failure during research period which is starting from 2008 – 2012	-
7. Not disclose information about corporate governance, ownership structure, CAR, CFROA, total asset	-
TARGET POPULATION	31

Variables Operational Definition

Variables operational definitions of this research are as follow:

- 1. Large Shareholders (LS)** : Large shareholder is measured by dummy variable. If there is an ownership which is equal or more than 5% than the value is 1, else the value is 0.
- 2. Foreign Ownership (FO)** : Foreign ownership is measured by dummy variable. If there is a foreign ownership which is equal or more than 5% than the value is 1, else the value is 0.
- 3. Government Ownership (GO)** : Foreign ownership is measured by dummy variable. If

there is a foreign ownership which is equal or more than 5% than the value is 1, else the value is 0.

4. Board of Directors Size (BS) : Board of director size is a total number of board of directors members in the company.

5. Commissioners Size (CS) : Commissioners size is the total number of board of commissioner members in the company.

6. Independent commissioner (IC) : Independent commissioner proportion is the ratio of the total numbers independent commissioners in a company to the total number of board of commissioners.

7. Capital Adequacy Ratio (CAR) :
$$CAR = \frac{EQUITY}{RISK\ WEIGHTED\ ASSETS} \times 100\%$$

(disclosed in annual report)

8. External Auditor (BIG4) : External auditor is measured by dummy variable. If the bank is audited by BIG4 public accountant company than the value is 1, else the value is 0.

9. Financial performance (CFROA):

$$CFROA = \frac{EBIT + Dep}{Assets}$$

Description:

- a. CFROA = Cash Flow Return on Asset
- b. EBIT = Earnings Before Interest and Tax
- c. Dep = Depreciation

10. Firm Size (SIZE): Firm size is measured by using natural logarithm of total asset of the bank.

Data Analysis Technique

Multiple linier regression analysis is used to test the effects of large shareholders, foreign ownership and government ownership, board size, commissioner size and independent commissioners, capital adequacy ratio (CAR), and external auditor on financial performance with firm size as controlling variable. But before performing the regression, the classic assumption testing is done to make sure that the regression model is BLUE (Best Linear Unbiased Estimator). The significance level used in this research is 10%. The regression model for this research is:

$$\text{CFROA} = a + b_1\text{LS} + b_2\text{FO} + b_3\text{GO} + b_4\text{BS} + b_5\text{CS} + b_6\text{IC} + b_7\text{CAR} + b_8\text{BIG4} + b_9\text{SIZE} + e$$

where:

CFROA	: Cash Flow Return on Asset (dependent variable)
LS	: Large shareholders (independent variable)
FO	: Foreign ownership (independent variable)
GO	: Government ownership (independent variable)
BS	: Board of directors size (independent variable)
CS	: Board of commissioner size (independent variable)
IC	: Independent commissioner proportion (independent variable)
CAR	: Capital adequacy ratio (independent variable)
BIG4	: External auditor (independent variable)
SIZE	: Firm size (controlling variable)
a	: Constanta
$b_1, b_2, b_3, b_4, b_5, b_6, b_7, b_8, b_9$: Coefficients of regressions
e	: Standard error

IV. Result and Discussion

Classic Assumption Testing

Regression model is used to know the effect of corporate governance mechanism which is represented with 8 variables to banks' financial performance (CFROA). In order to get the best regression model, classic assumptions should be tested, there are: normality, multi-collinearity, autocorrelation, and heteroscedasticity tests. The four tests have being done and pass all the requirements.

Normality test on the residual is done by using normal probability plot graph and Kolmogorov- Smirnov test. Based on the

normal probability plot graph as seen in the picture 4.1 (attachment), all residual values are located along the diagonal line. This means that regression model of financial performance has met normality assumption.

To ensure that the normality assumption has been met, Kolmogorov-Smirnov test is performed. The result of Kolmogorov-Smirnov test shown in table 4.1(attachment).The result shows that the the regression model used in this study has met normality assumption.

Multicollinearity test is done by looking at the VIF and tolerance value. According to table 4.2, all tolerance values are greater than 0.10 and all VIF values are smaller than 10. From the result of the test, it can be concluded that the regression model is free from multicollinearity. Thus, non-multicollinearity assumption has been met. Moreover, Durbin-Watson value is used to detect autocorrelation. Based on the result of Durbin-Watson test in table 4.3(attachment), the value of 2.129 is between 1.86142 and 2.31858 which is the critical value ($1.86142 < DW < 2.31858$), means that there is no autocorrelation cases in the regression model. Thus, it can be concluded that the non autocorrelation assumption has been met.

To detect the existence of heteroscedasticity, scatterplot between ZPRED value on x-axis and SRESID value on y-axis. The result of heteroscedasticity test depicted in scatterplot graph shown in Picture 4.2(attachment). It can be seen that the plots do not form a certain pattern and they scatter randomly above and below zero on y-axis; and scatter randomly on the left and right of zero on x-axis. Thus, we can conclude that non-heteroscedasticity assumption has been met.

Based on table 4.4, there is only foreign ownership, board size, and external auditor found to have a significant relationship with bank financial performance. The other variables do not have significant effect on bank financial performance. The significance value of LS is greater than 0.1, means that the first hypothesis is rejected. This happens perhaps because the large shareholders do not really use their power to affect management. As long as they get profit, they will just stay still. Also share ownership of 5% may be not enough for the shareholder to affect the company. This result is consistent with Zulkafli and Samad (2007) who show that large shareholders have no significant effect to bank financial performance.

Based on this result, the second hypothesis is accepted at significance level of 10%. Foreign ownership is negatively related to bank financial performance at significance level of 10%. This result is not

consistent with the research conducted by Zulkafli and Samad (2007). Their research found that foreign ownership is negatively related to financial performance. According to the theory, foreign institutions will bring good effect for the bank financial performance through their standard and their good systems but the culture between one and other countries are different. The culture difference may cause conflicts. Too many conflicts in an organization will lead to the decreasing of the performance.

The significance value of GO is 0.383 which is greater than 0.1; this means that the third hypothesis is rejected. This may be caused by the small number of government-owned bank in the sample so that the government ownership cannot affect the financial performance. This result is consistent with Zulkafli and Samad (2007) that the government ownership has no significant relationship to the bank financial performance with ROA as the financial performance proxy.

The significance value of BS is 0.047 which is lower than 0.1, this means that the fourth hypothesis is accepted. This result depicts that board size has significant relationship to financial performance. This result is consistent with Mahmood and Abbas (2011) that board size has significant relationship to the bank financial performance. But this result is not consistent with Zulkafli and Samad (2007) who found that board size is negatively related to financial performance. The positive significant relationship result may indicate that as long as the number of directors in the company is equitable, it will help the company to get better financial performance. Too least directors in a company will also lead to a problem, thus Bank Indonesia set the requirement for minimum number of board of directors member which is 3 directors.

The significance value of CS is 0.849 which is higher than 0.1. This means that the fifth hypothesis is rejected. This result depicts that commissioner size has no significant relationship to financial performance and it has positive relationship with bank financial performance. This result does not support Pudjiastuti and Mardiyah's (2007) research. Commissioners do not directly involve in operational activities. They role is only supervising and giving advice to the directors. Most of decisions are made by directors and management. So, commissioners may not have significant relationship to the bank financial performance.

The significance value of IC is 0.530 which is greater than significance value of 10%. This result shows that independent

commissioner has no significant relationship to the bank financial performance. The small number of independent commissioner may be the cause of the insignificance of the relationship. With the small number of independent commissioner, it is not strong enough to affect other parties in the company. This result is consistent with Zulkafli and Samad (2007) who also found that independent board does not significantly related to bank financial performance. But this result is not consistent with Haryani et al. (2011) who found that independent commissioner has significant relationship with financial performance of all companies including bank.

The significance value of CAR is 0.826 which is greater than significance value of 10%. This result shows that capital adequacy ratio has no significant relationship to the bank financial performance. Almost all banks included in this research sample during the observation period has capital adequacy ratio above minimum requirement set by Bank Indonesia. So, the changes in the regulation do not really affect bank financial performance. This result is not consistent with Zulkafli and Samad (2007) who found that capital adequacy ratio significantly related to bank financial performance.

The significance value of BIG4 is 0.022 which is lower than significance value of 10%. This result shows that external auditor has significant relationship to the bank financial performance and it has positive relationship with bank financial performance. This result is consistent with Zulkafli and Samad (2007) who also found that external auditor significantly positively related to bank financial performance. External auditor through the auditing process encourage bank to have better system, thus lead to a better financial performance.

Firm size as control variable is expected to have a significant effect to the relationship of corporate governance mechanisms and bank financial performance. The larger size of the bank means that more people invest their money to that bank. It means that this bank gain more trust from people and this bank implements good corporate governance, thus this bank has good system and management. The significance level of firm size is 0.382 and the t-value is 0.876. This means that firm size is not significantly positively affect the relationship between corporate governance mechanism and financial performance.

V. Conclusion, Limitation, and Suggestion

Based on the discussion in the previous chapter, it can be concluded that only foreign ownership, board size and external auditor found to have significant effect on bank financial performance. While the

other variables namely large shareholders, government ownership, commissioner size, independent commissioner proportion, and capital adequacy ratio (CAR) do not significantly affect bank financial performance. Firm size as controlling variable does not affect the relationship between large shareholders, foreign ownership, government ownership, board size, commissioner size, independent commissioner proportion, capital adequacy ratio (CAR), and external auditor and financial performance.

This research has limitation that can affect the result. The research limitation is that the proxy used to measure financial performance may not good enough to capture the relationship between large shareholders, foreign ownership, government ownership, board size, commissioner size, independent commissioner proportion, CAR, external auditor and bank financial performance. So it is expected for the further research to find a better proxy such as ROA, ROE or Tobin's Q that may depict bank financial performance better, hence so a better result might be gained in defining the relationship between corporate governance mechanisms to bank financial performance.

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NARCISSISM IN LOCAL BUDGETING: THE MIRROR AND MASK EFFECTS OF PUBLIC ASPIRATION FUND

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Abstract

This study aims to interpret public aspiration fund in local budgeting in narcissism perspective. Discourse about "public aspiration fund" is a reality in budgeting leading to a contradiction, so the question is whether "public aspiration fund" that shows the reality in which the amount of funds used for realizing programs or activities in local government expresses public needs and aspiration or contains another meaning related to personal interest and certain group interest.

The research results provide an understanding that local budgets have potential to accentuate the "hall of mirrors". Public aspiration funds were created by budgeting actors to express their identity as "the representatives" and to entrust the management to bureaucrats to "serve" public interests. However, in reality, the public aspiration funds have been part of an effort to serve their interests. The public aspiration fund has become a simulacrum that produces all the fake deviated from the reference and create a mark as a mask, camouflage, or a mirage.

Keywords: narcissism, budgeting, public aspiration funds, mirrors, masks

Prologue: Narcissism, "I Love Me"

The term 'narcissism' was first used in psychology by Sigmund Freud to take the figures of Narcissus in the Greek myth. Narcissus was a young man who was predicted to live a long life. However, Narcissus had angered the gods for refusing love of Echo. As he was bending to drink water in a pool, Narcissus saw himself in the water and instantly felt in love with himself. Every time he grasped the picture, it disappears. He sat and cried at the pool for days, he was not able to embrace the love of himself (Chatterjee and Hambrick, 2006). That is why, the word

‘narcissistic’ describes a person who is too self-esteem, over-confident. Narcissistic was very egocentric and attention seeker.

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At the social level, a narcissistic person is a skillful manipulator to trigger and utilize narcissistic impulse to the people around them. Narcissism is the attitude of individual in maintaining and improving the high valuation on him. (Campbell et al., 2004). Narcissists tend to be cruel, lack of empathy and persuasive rationalization for belief system (Lutus, 2007). Chatterjee and Hambrick (2006) conclude that narcissism is a matter that leads a person to assume positions, power, and influence (Kernberg, 1975). Moreover, narcissism is closely related to self-esteem, helping people in their professional progress (Raskin et al., 1991). Narcissistic culprit tends to perform high self-appraisal, good intelligence, creativity, competence, and ability to lead (John and Robins, 1994). Therefore, narcissism makes people try to create a positive image which can give rise to optimism and strong belief on the results they will obtain.

Christopher Lasch in ‘the culture of narcissism’ saw that the existence of this narcissism is very dangerous (Lasch, 1979). Narcissism celebrates the surface culture of narcissism rather than the substance of culture. They used face rationality, artificial popularity, and so forth. Narcissism Denies the substance of culture. Perceptions about the "I" experience such hyperbole and grind to exhausted the perception of "you" that is not "me". Thus, the perception of "us" became critical and problematic, not to say it becomes nil (Rachman, 2009).

In political context, political behaviors that engross with one-self refer to the behavior of political narcissism, Piliang (2009). The existence of this political narcissism is certainly dangerous, because it performs more on ‘face’ popularity rather than the rational and substantial things. Some political phenomenon in regent and legislative election indicate that society has actually been saturated with "face" politic which tends to be narcissistic. People prefer face to face rather than treated to great photos and "political appointments". Few days before the election of legislative candidates, regent, and president, political speeches can be seen in various events to attract the sympathy of voters. Political billboards of giant photo with a "narcissistic" smile, political jargon, acronyms that are

elusive in grammar, are found along the road. The theme always relates to "the favor of people". However, those are only mantraps to be elected, because after that they were all busy with the political deal while making bigger political plans

Tracing the Public Aspirations Fund

Aspiration fund is the popular name for a budget policy that once championed by Golkar Party for the reason of accelerating the development in electoral districts of the members of House of Representatives (DPR) with the fund proposed reached Rp15 billion for each electoral district or Rp 8.4 trillion per year. Of course, this raises the "furor" because of the polemic caused. At a meeting of targeting council of DPR in discussing about the framework of the preliminary drafting of State Budget (RAPBN) in 2011, Jakarta, the proposal was set to be officially proposed, but some factions in the House of Representatives (DPR) rejected the proposal. However, later the name becomes the program of acceleration and equalization of regional development through the regional development policy of constituency base. The funds are included in Working Committee report notes of the policy of Central Government Expenditure Budget Agency (Kompas, 06/04/2010).

The proposal of aspiration funds was rejected because the fund aspiration referred to as "pork barrel" that is prone to corruption or simply meet politicians' piggy bank. The term 'pork barrel' refers to spending managed by politicians or parliamentarian to their constituents in exchange for political support, either in the form of a campaign or vote in elections. The goal is that they can be re-elected in the next election. This political practice is constantly criticized because it tends to favor private interests rather than public interests as well as prone to fraud and misdirected. On one occasion the dialogue which was broadcasted on live on SUN TV dated June 16, 2010, 20:00 pm (www.benhan8.wordpress.com), Benny Handoko argues:

Allocation of fund aspiration of Parliament will collide with the controlling function of Parliament on budget implementation. An example was the implementation of pork barrel in Philippines budgeting 60 million pesos per Congressman (or equivalent of Rp15 billion) with an impact on executive and legislature that do not control one to another, you scratch my back, I'll scratch yours (the term for mutual aid or collusion). The consequence was the mark-ups and corruption in pork barrel projects. The practice of executive-legislative collusion could occur and an example of the

kickback from the contractor that ultimately declines the quality of projects and the people are disadvantaged.

According to Noda (2011), pork barrel is one of primitive forms emerged in Philippines in 1922 when the Public Works Act was approved. Since 1950, Congress was allowed to determine which projects will be funded under the Act, and from 1955 legislative projects were sponsored and separated from all the other items with the name "community projects". Finally, the project was further subdivided into "nationwide selected projects" set by Congress, and determined by Senator. Along the Marcos regime, the main arena for the funding of pork barrel was allocation of funds for multi-years infrastructure projects on public works projects under the Act set aside from the rest of national budget. To organize the fund, the Congress has the complete freedom to change the proposal of President or even impose a new, larger allocation. Due to the allocation of public works are multi-years, and because not all parts of the allocation that comes out of Congress were supported by the available funds, then conducted accumulation of projects which were implemented from three years earlier. After democratization in 1986, pork barrel was eventually incorporated into the general budget. This can increase the transparency of budget system. Although pork barrel did not longer exist, they use various forms of expenditure in general budget and thus become more visible.

In Indonesia, The practice of pork barrel in Indonesia is more or less the same as the pork barrel in the Philippines, where the aspiration funds or social aids for people are allocated to a particular project or program. Pork barrel is basically a series of budget politicization chain by legislature. This practice has a correlation in the election cycle and fiscal policy. Macro-economic assumptions such as; fuel prices, inflation, and economic growth is always used to make pork barrel program be realistic. Politicians want to create a good impression to the voters that the pork barrel is issued to support the economy stability. Pork barrel is considered as an act of generosity from governments (Farhan, 2013).

Thus, their practice was later developed into image political in which the politician is understood as a savior of society. Research into the pork barrel as a political budget cycle was introduced by Rogoff (1990), later then developed by Shi and Sevansson (2002). According to Rogoff (1990), political budget cycles are shown in budget posture, increasing spending, and unusual transfers. This budget distortion may occur because politician wanted to show himself as a good politician who always works hard for the benefit of society. Therefore, asymmetry

information has made a paradoxical effect where politicians get the political support about the pork barrel. Meanwhile this practice has harmful effects on the budget allocation for political interest.

Aspiration fund is the popular name for a budget policy that once championed by Golkar Party for the reason of accelerating the development in electoral districts of the members of House of Representatives (DPR) with the fund proposed reached Rp 15 billion for each electoral district or Rp 8.4 trillion per year. Of course, this raises the "furor" because of the polemic caused. At a meeting of bargaining council of DPR in discussing about the framework of the preliminary drafting of State Budget (RAPBN) in 2011, Jakarta, the proposal was set to be officially proposed, but some factions in the House of Representatives (DPR) rejected the proposal. However, later the name becomes the program of acceleration and equalization of regional development through the regional development policy of constituency base. The funds are included in Working Committee report notes of the policy of Central Government Expenditure Budget Agency (Kompas, 06/04/2010).

Although the aspiration fund that has been altered by nomenclature of acceleration and equalization program of regional development through regional development policy of constituency base has been officially proposed by members of Parliament, but it seems precisely the "spirit" of this aspiration fund is still alive and maintained in the local budgeting process. The research results provided an understanding that the mechanism of "public aspiration fund" is used as one of the mechanisms of budget allocation by local governments. In this case the allocation is an integral part of regional budget which is then implemented in the program and budgeting of the Local Government Unit.

Some facts indicate that the funds on behalf of public needs and social interests became a 'plowing' sources of budgeting actors, such as the alleged misuse of funds aspirations in Jeneponto reached Rp55 billion in 2012 (Tribunnews.Com). Cases of alleged deviation of social aid funds of the government in South Sulawesi Province in 2008. The total expenditures of the social aid funds amounting Rp151,5 billion, of which approximately Rp149.9 billion social aids for social organization and regional secretary of South Sulawesi Province (CPC 2009). Based on data from the Ministry of Home Affairs in the last ten years (from 2004 to 2014) there were 3,169 members of parliament (DPR), 325 regents were allegedly involved in corruption cases. In addition there were 1,221 civil servants who were also involved in corruption (www.republika.co.id). This phenomenon shows that the legislative and

executive in interaction can only make budget policy in maintaining a positive sense of self, maintaining their ego, and preserving self-esteem.

Theatrical exploration in interaction of the local budget actors in this research is to gain a unique perspective on local budgeting dynamics. Through an understanding of narcissism, this study explores the involvement of local budget actors in "identity game", how the public aspiration funds show a reality on public welfare policy partiality as the "holy" goal of local budgeting.

Public Aspiration Funds and Regional Budgeting Politic

Posner and Park (2007) stated that legislative authority on public funds has become the basis for budgeting and public accountability in the budget development proposed by executive. The basic power of legislative appropriation shows formative influence in allocating funds in various priority levels. Legislative influence over the executive was strengthened by implementation of supervision over the budget implementation and management. The role played by the legislature actually very spacious, among others are political forces, law and institutions as well as internal legislative structures and processes changeable by the legislative itself.

Over the last two decades The role of legislative in public policy making and budgeting is getting increased (Schick, 2001). Using case studies on four agencies, Johnson (1994) found that bureaucracy responded to the pressure exerted by the legislature in the process of budget and policy making. Hyde & Shafritz (1978) in Abdullah and Asmara (2006) stated that budgeting is a legislative process. Whatever the executive made in the budgeting process would ultimately depend on the legislature because the legislature has the power to ratify or reject proposed budgets of executive.

Dobell and Ulrich (2002) stated that the important role of legislative is to represent public interests, empowering government and supervise the performance of government. The three roles put legislature be capable of providing significant influence on government policy. Meanwhile, according to Havens (1996), there is no requirement for the legislature to have the same preferences with the government on policy, including the budget. Samuels (2000) mentions two possible changes the legislative can make toward proposed budget of the executive: the first is to change the budget amount and the second is to change expenditure distribution or expenditure in the budget. Following the order of legislative power be generally applied, several possibilities could occur are:

(1) The legislature cannot increase spending or the deficit, but can decrease spending or raise revenue; (2) the legislature requires Presidential approval before final passage to increase spending; (3) the legislature cannot increase the deficit, but can increase spending if increases revenue; and (4) the legislature can increase or decrease spending or revenue without restriction.

Division of constitutional responsibilities between executive and legislature has a great impact on the legislative-executive role in budgeting. Budget structure has effect on the role played by the legislature in budget process. With regard to the scope of legislative authority, according to Wehner (2004) one category of legislative influence on budgeting is that legislature has capacity to amend or reject the proposed budget of executive and replace them as proposed.

The management of programs and activities using public aspiration funds shows how the dominance of the board members may have an impact on accountability, including the impact and quality of these activities. According to Posner and Park (2007) the commission structure is the heart of legislative influence. Given the complexity and technical details in modern budget, the legislature realized the importance of task-sharing to review the commission budget. The relationship between budget committee and commission is important in determining the budget by legislature (Schick, 2002). The level of budget changes is one way to assess the influence of legislature on the budget.

Legislative officials often have informal influence toward executive budget before approval. The executive officers have incentive to anticipate and take into account the potential for legislative review on the accounts and their reactions when developing their proposals, either through informal negotiations or anticipatory behavior. Indeed, the absence of changes that may reflect bargaining and negotiations between the executive and the legislature during the formulation process, if there is an effective informal consultation (Posner and Park, 2007). Legislative intend to affect the public budget with not only maintain the program and priorities for funding, but also how it be "entrusted" through an executive agency.

Provided with expertise and control over the details of the program implementation, local governments can gain significant influence in re-forming the services actually delivered in the programs and activities. In influencing the budget implementation, legislature must maintain a balance between supervision function and desire to increase efficiency by allowing bureaucrats to manage the program in accordance

with the norms and values of professional. Greater legislative involvement in budgeting presents important institutional challenges. Legislature is a collegial board and representative institutions of policy making. As a political institution, their capacity for collective action is often hindered by different parties, either ideology or constituents. The legislature will be very responsive to constituencies and constantly challenged to produce a response at high level constituents and take responsible action on behalf of the entire society (Meyers, 1999). Legislature and rules can assist the deliberation structure and voting to balance the frequently competing incentives, but politically can reverse when the political change (Shepsle, 1986).

The strong role of legislative in budgeting raises questions about how the role be expanded will influence and in contrary to the objectives and budgetary criteria such as: fiscal discipline (Joyce, 2005; Wehner, 2001), budget allocation, administrative efficiency, and accountability. The trade-off occurs between competing objectives. A budget process with the closer legislative control will increase the democratic accountability but with the potential risk erode the government's efficiency or fiscal discipline. Legislative control will depend on factors such as the nature of party system, the potential for collaboration and cooperation of all governments, the quality and capacity of legislators and their staff, and their incentive structures in balancing the potential for tension between the response of constituents and effective policy-making.

Schick (2002) shows how the role of legislature in budgeting gives strong consequences on executive power. Budgeting is potentially to restrict the action of legislature. Meanwhile, advance the interests of legislature as a priority does not mean that the reformation is a zero sum game, where the benefit legislative is the loss of executive.

The result of this study provides an understanding that public aspiration fund is a part of local budgeting mechanism. In this respect the public aspiration fund is a compromise through informal mechanisms between local authorities through the Local Government Unit (SKPD) of South Sulawesi province and the Regional Representative Council (DPRD) of South Sulawesi Province through each commission. Political cycle of local budgets shows that there are two mechanisms for negotiation in bringing together the interests of the executive and legislative branches. Budget Agency (Banggar) of DPRD together with Local Government Budget Team (TAPD) are in charge of discussing more strategic issues such as the discussion of KUA-PPAS proposed by local government and jointly prepare the final draft of the financial

memorandum and draft of local regulation (Raperda) toward regional budget including establishment of the allocation of "public aspiration fund" of each member of the board. More technical mechanisms and informal is the Commission Meeting together with partners from each Local Government Unit (SKPD).

At the commission meeting with the partners from each SKPD conducted "negotiations" about the programs to give fund by the aspiration to be "entrusted" on the budget of each SKPD partners. It is the point the "conspiracy" about the public aspiration funds be conducted. According to Davis (1994) the links, connections, partnerships, and alliances can serve to provide benefits or greater control. Coalitions are often represented as an informal power. In negotiations, it is likely to encourage others to make concessions (Cialdini, 1993). Unfortunately, the exchange of pleasure, compromise or arrangement of "under-table" may be unethical and illegal, or at least may not be the best interests of organization.

Public Aspiration Fund in Reality and Symbol Relationship

According Piliang (2010), reality is like a dynamic geographical map emerging in contour richness, surface, terrain, cracks or chips; whose elements are always changing, moving, or transforming. So he said that reality always revealed his form in a different way. Sometimes it appears as alleged, but often also in unforeseen circumstances; it does not sometimes appears as imagined, but sometimes also appear not as imagined. Sometimes it appears in regularities, but often also appears in irregular shape. Sometimes it is a reflection of a rational thing, but often it becomes a reflection of irrational thing. An object can represent reality through the material designation (Piliang, 2012). In this case, the reality itself is a reference of sign. However, an object can be a copy, replica, mock, or duplication of the reference itself. It becomes an icon of reality, simulation. In this case, the difference between the sign and the reference is very thin, so it may be said that the sign itself is a reference. It may also happen that a sign is not at all referring to a reference or a certain reality. Therefore it is itself a fantasy, an illusion, or hallucination that changed its form as if it were reality-it is a pseudo-reality, hyper-reality. Public aspiration fund is a duplicated reality and then reproduced into a model created in the local budgeting policy. Public aspiration fund as a social reality at the level of social objectivity is the objectivity based on the agreement made by the actors of local budgets.

Discourse of public aspiration fund as part of local budgeting reality provides an understanding that public aspiration fund was

"created" by actors of local budgets and had become part of the "game" in the political cycle of local budgets. Giddens action theory states that individual actor as a member of a culture is skillful and knowledgeable of the culture. They "know how to play the game" (Boland, 1985). This means that they do not only capable to talk about things to be done and how things are performed in society, but they also have skills to act, monitor, and change their actions in certain circumstances which are known only by themselves "they know more than they can say."

Legislative understands the public aspiration as (1) a form of responsibility of the council members as a representative of society, (2) all needs of community development that is nominally represented in the local budget (APBD), and (3) one of forms of the political interests that aim for the need of equity based on constituency (electoral district) council members. The study provides an understanding of how the reading of public aspiration funds be interpreted by the informant as:

1. Funds of "pork barrel". Particular Pork barrel do not often touch the root of the problem existing society, because only segmented to specific recipients who may be considered a loyal voters. Pork barrel was then inherited in political practice as something that "must" be done. The local budget actors who take "part" of the public aspiration funds will at the end only bring benefits to themselves and their political careers, and not because they believe that the project for which they fought really worth it for the benefit of society.
2. Imaginary political fund. The practice of public aspiration fund has been developed into a political image in which the local budgeting actors are understood as a savior of society. Political budget cycle is shown in the budget posture, increasing spending, and unusual transfers. This budget distortion may occur because the politician wants to show himself as a good politician who always work hard for the benefit of society.
3. Entrusted fund, "locker". Public aspiration program is proposed by council members to be part of local budgets. The funds used in the fund aspirations program is considered as "entrusting" owned and controlled by the "entruster". Work program and budget on SKPD is defined as "locker" or the place where the aspiration fund is placed.
4. Funds of conspiracy. Conspiracy in the management of public aspiration funds has become a part of the culture of "political budget" which enjoyed "in share" so that it is more and more difficult to trace the impact on society in accordance "holy" purpose of the program or the fund aspirations.

5. Inspiration and aspiration funds of local budgets actor. The program of public aspirations has become the inspiration for the local budget actors to aspire a number of public funds to finance the programs or activities aimed at public interests, but it was eventually be used as part of political incentives and private interests.
6. Unimpacted funds. Public aspirations fund does not only give effect of "shaving mustache". The problem is as if finished after "being shaved" but after that it will appear again. Public aspirations fund has not been comprehensively felt and not touched the public fundamental interests and is considered be only enjoyed by a certain group of people or by the budget actors themselves.

Thus, at the level of discourse, public aspiration fund is used as a 'rational' argument to realize the parliament action to "answer" people's desire and fulfillment of "political promises" when campaigning and recess activities in electoral districts. At the practical level, public aspiration fund "provided by" local budgets as "legitimacy" that public aspirations has been "implemented" through programs or activities in each work unit area. Authorization upon the symbol is described as the power to create a reality that as if legitimate in nature. The symbolic power occurs through the introduction made possible by habitus of work as a scheme of perception and appreciation of reality.

Public Aspiration Fund: The Mirror and Mask of Local Budget Actors

Amernic and Craig (2010) said that unethical behavior is suspected to arise because the organization is very narcissistic (and possibly the organization members) through self-obsession, self-aggrandizement, denial, and rationalization to justify what they are doing (Duchon and Drake, 2009). Research of Anderson and Tirrell (2004) showed that narcissists of CEO made the choice of accounting policies and management decisions and that the existence of extreme narcissism may help to explain the company's decay (Schwartz, 1991). Budget accounting has a unique and distinctive feature to encourage the ego and improve the behavior of certain budget actors by using the budget language and steps as an important instrument in their discourse of accountability to the public. It is important for all other stakeholders to monitor the language of the budgets actors for signs of narcissists including signs provided by the language and budgeting action.

There is reasonable reason to assume that most actors of local budgets show a tendency of narcissist. Kets de Vries (2004) argued that

"... a solid dose of narcissism is a prerequisite for anyone who hopes to rise to the top of an organization". Competition in regent and legislators election is an intense fighting and "allow individuals of strong narcissistic personality to prepare more in doing the difficult process for reaching positions of power" (Kets de Vries and Miller, 1985). This view is supported Pech and Slade (2007) who stated that narcissists "want a higher position" and they can satisfy their desire to gain power through legitimacy and adapt to demands of routines and rituals of organization.

The policy of public aspiration funds in local budgeting has shown how legislature creates a symbol that indicates their responsibilities as the representatives to fight for public aspirations. However, in reality, the public aspiration funds have led to contradictions in an effort to serve their interests. Lancan in Piliang (2012) referred to it as a structured unconscious just like language structure. Lancan saw that as a language phenomenon, unconscious human journey is divided into two general phases, namely imaginary phase and symbolic phase. Imaginary is associated with the identification experience of intuitive, affective and emotional; a variety of stimuli, as well as conceptual thoughts flowing without limit and with overlapping conditions, fluctuating, and criss-crossed, before moored permanently on the symbolic order. The symbolic order is alienation phase or subject splitting, namely the phase of losing part of his reality by identifying himself in symbolic order, in the form of a convention or code. Among the phases of this imaginary are the phase of mirror image and narcissistic identification phase (primary identification), in which the subject lives in ambiguous nature. At this narcissistic phase, the subject is seeing himself in the mirror with feelings of love due to its beauty, although what is seen (signifier) is not the truth (signified) of him. The public aspirations fund is one of the mirror and masks effects in budgeting context.

As part of the implementation of Local Parliament (DPRD) function: legislation, oversight, and budgeting, the legislature has the power to have a significant impact on budget policy. Such as what is called by Castellano and Lightle (2005) as a power manifestation of "tone at the top" in financial reformation. The legislature can set the "tone at the top" and affect the ethical attitudes through proposing program to be considered as the program of netting results of public aspirations "romance netting". The council members as "representatives" is the public representation so it is natural that they are metaphorically called "respectable" in projecting themselves. According to Kets de Vries and Miller (1985) this behavior is prone to develop the mental models

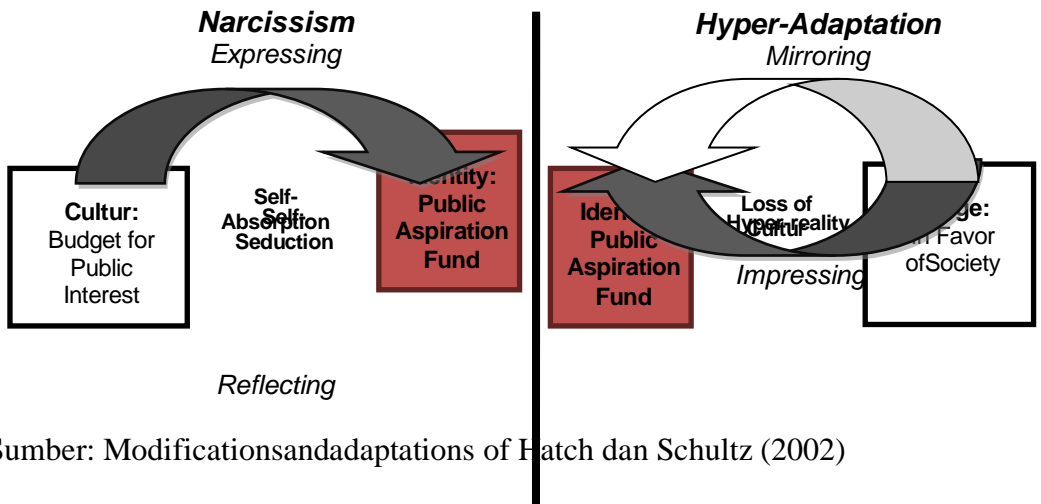
of themselves. This is consistent with many behavioral traits of extreme narcissism: grandiosity, vanity, fantasies of power and brilliance, search of admiration and arrogance and tends to have characteristics of destructive narcissism. Destructive narcissism is prone to paranoia and tend to maintain "some sort of stability". A leader who has the characteristics of a destructive narcissism can split himself as a "good representative", engaged in combat with "representatives of evil" (Glad, 2002).

Basically the local budget is designed as one of the implementations of the government's duty to serve and improve the public welfare. Therefore, the real budget is dedicated to the public interest. The public aspiration fund is one of the "absorptions" of action of local budgets actors to express their careness to the public. However, according to Edelman (1967) bureaucratic culture has been encouraging to see people as objects of administration, as a so many collection of "problems" to be solved, controlled, and improved or remade as a target for "social engineering", and generally designed and stored in the planned form with violence. The focus is attention to the dramatic political developments, but had no effect on welfare. The political discourse is usually bringing persons involved in tragic event.

In the model of organizational identity dynamics, Hatch and Schultz (2002) claimed that organization members concluded their identity based on how they express themselves to others and imaging who is in the shadow of self-expressions. Brown (1997) diagnose the conditions that unwilling or unable to respond to external impression as organizational narcissism. Based on the concept of Freud, Brown stated that narcissism is a psychological response to the need of managing themselves, while narcissism in organization as a complex psychology which consists of denial, rationalization, self-aggrandizement, selfishness attribution and anxiety. Narcissism becomes dysfunctional when it exists in extreme conditions.

The narcissistic organizational identity according to Hatch and Schultz (2002) emerged as a result of identity and cultural interaction in which the feedback of 'mirroring' process was ignored or even never found and no real effort to make communication with all stakeholders. The dynamics of dysfunctional identity occurs when the organization made a mistake in expressing self-referential (ie culture embedded in identity reflection) to be projected to the outside. Christensen and Cheney (2000) diagnose this dysfunction as organizational self-absorption and self-seduction leading to an "identity game".

Figure. 1
Local Budgeting and
Dysfunctional Potential of Public Aspirations Fund



Sumber: Modifications and adaptations of Hatch dan Schultz (2002)

Hatch and Schultz (2002) stated that the organization loses a point of reference with their organizational culture in evolution stage of the image as described by Baudrillard (1994), in his book *Simulacra and Simulation*. In the first stage, the image represents the reality in line with the depth of the meaning of image (or sign). In the second stage, the image acts as a ‘mask’ to covers the reality hidden beneath the surface. In the third stage, the image appears as a ‘mask’ but does not exist in reality. Finally, in the fourth stage, the image has nothing to do with reality.

An object can represent reality through the signifier which contains a specific meaning or signified. In this case, the reality is a reference from the signifier. However, it can also happen that an object does not refer to a specific reference or reality, because it is a fantasy or hallucination to realize, Baudrillard called it as ‘hyper-reality’ (Piliang, 1998). According to Baudrillard (1994) the era of hyper-reality was signified by the disappearance of signifier and metaphysics of representation; the collapse of ideologies and reality replaced by

duplication of thenostalgia world and fantasy or becomes reality to substitute reality, fetish tomissing objects is no longer the object of representation, but the ecstasy of denial and annihilation of the ritual itself.

The hyper-reality world is a world loaded by alternation of the reproduction of simulacrum objects, objects of purely "sightings", deprived from the social reality of his past, or indeed possesses no social reality as a reference. In such a world, the subject as consumer is herded into "space experience" of hyper-reality experience to alternation of "sightings" in the room, mingling and melting of reality with fantasy, fiction, hallucinations and nostalgia, so the difference between each other is hard to find. In this case, hyper-reality to Baudrillard (1994) emphasizes both nostalgia and science fiction. People who are in this era are stuck in a state of schizophrenia, to remember them do not need to reflect the sign, message, meaning or norms. The populace is treated the reproduction of sighting values but not the reproduction of mythological or ideological values. The populace is the consumer who absorbs the material values, the values of imaginary or sightings. Local budgeting has emerged mirror and mask effects for the involved budget actors. The problematic of symbols created by the local budgeting actors through discourse of public aspiration fund has opened space to expose the true reality behind the symbol.

Discourse and Potential of Local Budget Narcisism

Local budgeting as a result of social construction shows the activity and behavior of local governments that reflect the values and social goals. According to Wildavsky (1998) the budget can not be separated from society's values. Therefore, he further said that there is a need for pragmatic and practical view in looking at the budget to study the social and political ideology embraced by a society or government. In line with this view, King (2000) argued that the budget can not be understood without an understanding on the "context", therefore, Koven (1999) in his study did not focus on the numbers in the budget process, but he saw some triggers such as politics and power. According to Syarifuddin (2009) local budget is the face and the heart of policy-making actors. "Face", because the budget is something readable by anyone and can not be hidden. While the "heart" is a process of upheaval like a drama, because the numbers in a budget draft is only a physical reality, while the non-physical reality such as spirit, an emotional and soul, including the spiritual aspects are only recognizable by the policy perpetrators.

When local budgeting can not show how the management of resources for public welfare, politicians, bureaucrats and legislators will seek to influence public perception by shaping the image as if they carry out the mandate entrusted by voters (public). Thus, local budget has the potential to accentuate the "hall of mirrors".

Local budgets can claim rhetorical potency. When exploited by the actors of narcissistic budget, this rhetorical potential has power. Local budget facilitate the actors of narcissistic budget as part of a social expression. Glad (2002) analyzed the narcissist malignancy (political tyrants) leading to characteristic of destructive narcissism as a vicious circle that makes the "tyrant becomes increasingly isolated from the people under leading (Glad, 2002). Budget language has strong potential to be involved in the cycle by contributing to the isolation of budget actors from society. Thus, the abstraction of local budgets provides accounting (as a story) to another abstraction that is (metaphoric) of local government.

Public aspiration fund in this study is used as a theme of narcissism. According to Kets de Vries (2004) a dose of extreme narcissism is a prerequisite for anyone who hopes to rise to the top of the organization. In high competition, strong narcissistic personality is more preparable to carry out the difficult process to reach powerful position. Pech and Slade (2007) argued that narcissists "want a higher managerial position" for the satisfaction of gaining power through legitimate in corresponding to the demands of ritual organization. Narcissism is often referred to as one dimension of personality "Machiavellianism triad" (Paulhus and Williams, 2002) with a tendency of manipulation, a liar, opportunistic, but be able to attract attention, charismatic and pretend to emotion. Political narcissism according to Piliang (2009) is the tendency to exaggerated "self worship" of political elites, which builds self-image even though it is not the actual self-reality: "close to the farmer", "underprivileged defender", "familiar with the merchants in the market", "cautious leader", "guard of nation unity", "eradication of corruption", or "defenders of nation conscience". Political narcissism is the mirror of "political artificialism", through as good, smart, intelligent, perfect, and ideal as possible of self-image construction, regardless of general view of actual self-reality.

Local budgeting has broad dimension that encourage local government to establish narcissism. Lutus (2007) stated that one of the main suppliers of social narcissism is the government. Government narcissism relates to how to utilize people in accordance with what they need and that the government is in a "moral vacuum". Sometimes a

person comes into government with ideas about role and limitations, and then creates a program and budget based on personal narcissism in opposite to public sentiment. However, such mistaken is considered natural, because the public will usually forget it in a short time. The failure of social narcissism is demonstrated by inability of government policy to fight against the public instincts. However, the success of social narcissism is that government comes at the greatest power when the public confesses and reinforces the uncivilized desire of individual. The Government is successful to attract public collective narcissism while personally they only act for concern (Lutus, 2007).

Local budgeting as a discourse can be observed through language use and social relations that exist behind the budgeting process, in which the budget actor is speaking, writing and acting in local budgeting. This is in line with the notion of discourse by Piliang (2012) that the discourse is related to the use of language in certain time and place. The discourse is also directly related to social practices and daily life. In language area, discourse is defined as "... a certain way of speaking, writing, and thinking". Discourse can also be defined as a particular way in drafting and acting against social objects, which creates the implication on the subject. It is manifested in social practices and physical composition (or structure) as well as in oral and written form. Therefore, discourse forms the object and object at the same (Piliang, 2012).

Local budget that represents "public service" is difficult to use as a reference to show the reality that every *rupiah* of budget has direct and indirect contribution to public service and welfare. It can also be seen in the budget performance indicators that can only measure the output. Whereas, the instructions for the Program Performance and Accountability Report (LAKIP) clearly show that activity program indicators: output, outcome, and even impact of each activity. In terms of format, the budget policy used is indeed the performance-based budget, but in the budget organization process, the mind set traditional budgeting is still used. In the concept of performance-based budget, local budgets should reflect the performance of or report on their success or failure. Discourse in local budgeting is not merely the application of the system of signs to represent the actors' behaviors in local budgeting and planning. Piliang (2012) stated that although the discourse covering the signs and semiotics, but it is also associated with other relationships inherent in the discourse beyond signing system. One of those relations, as proposed by Foucault, is power relation that behind the pronunciation or disclosure, behind the setting of space and objects, behind the use of

body and pleasure, there is a form of power that operates and determines the existence and the shape.

Conclusions, Implications, and Research Limitations

Conclusion

Narcissism in local budgeting can be observed through a search on "public aspiration funds" created by the actor of local budgeting and as a form of local budgeting dynamics to shape identities attached to legislators as elected representatives or bureaucrats to serve the peoples. Public aspiration funds become "expression" of local budgeting culture as a "physical" form of the service interests and public welfare.

The study also gains an understanding that when the identity becomes a "motive" to obtain the benefit of "private" or "certain groups" on behalf of the public, the aspiration funds have then been used as a means of "impression" that they are "as if" concerned with the public. Thus the public aspiration fund is not longer the reality but it has become narcissism of political budgeting as a "mirror" that Piliang (2009) called it as "politics of seduction". Aspiration funds have "disconnected" from their cultural roots (loss of culture).

Implication

At the practical level the mechanism of aspiration fund that was previously intended as fund allocation for legislative members in accordance with constituency has indeed become a local budgeting culture that tend to be manipulative.

As policy implications, the aspiration fund is a part of totality by design of entire budgeting process. The practice so far shows that the level of accountability and transparency of public aspiration fund management is very low, because the amount of aspiration fund allocation is unknown and only a part of "negotiation" between the local government and local Parliament (DPRD) through each device and their fittings.

The theoretical implication of this study indicates that local budgeting is not only observed in behavioral context, but can be developed in a broader perspective to observe the psychological, social, and politics impacts.

Limitations and Research Agenda for Future

The limitations of this study include: first, the selection of existing signs in local budgeting associated with the tendency of narcissism. This study only selected public aspiration funds as a hyper-

signifier. The analysis of texts or signs with semiotic approach can use all texts created and established in local budgeting. Future research can develop various signs that are produced in local budgeting, such as social aids, grant for the poor, free education, free health care and focus their study on these signs.

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AN EMPIRICAL STUDY ON ORGANIZATIONAL ACCEPTANCE ACCOUNTING INFORMATION SYSTEMS IN SHARIA BANKING

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Abstract

The purpose of this research is to investigate the correlation of management support and self-efficacy variables, to perceived usefulness, perceived ease of use, and behavioral intention to use variables of accounting information systems of Islamic Banking. This study aims to discover the roles of external variables, including management support and self-efficacy variables which influence perceived usefulness and perceived ease of use of accounting information systems (AIS) of Islamic Banking. The study was conducted in several Islamic Banking in Malang City, East Java, which consist of Bank Mega Syariah, Bank Syariah Mandiri, Bank Muamalat, Bank Panin Syariah, Bank Jatim Syariah, BTN Syariah, CIMB Niaga Syariah, BRI Syariah, and BNI Syariah. The population of this study are employees who worked and dispersed all over Islamic Banking in Malang City and samples of 135 people as system users were used for data examination. This study emphasized on quantitative approach in data analysis which uses Generalized Structured Component Analysis (GSCA) approach. The result shows that all tested hypotheses have significantly positive correlations, which are: management support on perceived ease of use, management support on perceived usefulness, self-efficacy on perceived ease of use, self-efficacy on perceived usefulness, perceived usefulness on behavioral intention of use of AIS; and perceived ease of use on behavioral intention of use of AIS.

Keyword: Management support, self-efficacy, accounting information system, Islamic Banking

1. Introduction

The implementation support of information technology is the key factor of the survival and development of enterprise business processes which must constantly deal with global, technological, and environmental change (Hernandez et.al, 2008; Dulcic et.al, 2012). This is mainly because successes in today's global era are closely related to quick and efficient information exchange. In addition, every business organization is almost certainly require a technology that is able to support the organization in carrying out various operations more effectively and efficiently. Thus, information technology is a key and determinant factor of a company in achieving its business development and progression. As explained by Garaca (2009) in Dulcic et.al (2012) that the important reason underlies the usage of information systems is to support the decision-making process in order to gain competitive advantages and efficient business processes.

The information system provides a wide range of relevant and integrated information for the information system users. One of such information is accounting information. Thus, accounting information system become necessary for organizations. Accounting information system is responsible for collecting, storing, financial data processing, and accounting used by the internal management for decision-making. Accounting information system includes three subsystems: (1) transaction processing systems that support daily business operations, (2) the general ledger system and financial reporting system and (3) the management reporting system (Belfo and Trigo, 2013). The information system has the ability to combine various elements such as data, information, human resources, information technology devices, accounting models, and procedures, for then facilitate the objectives achievement of accounting related to the collection, grouping, elaboration, recording, and data presentation (Amran et al., 2014).

Islamic banking can not be separated from the need of using accounting information system. Accounting information system is very important in providing faithful representation of transactions or economic events occurred in the organization. In the context of Islamic banks, it becomes very important to present accounting information which is relevant and reliable in accordance with the substance and form of sharia contract / agreement (Karim, 2001). Islamic banking has grown rapidly in Indonesia, which its citizens are predominantly Muslims. This is probably because there are segments of the population which require financial services in line with their belief which is sharia-compliant products (Beck et al., 2013). Islamic banking has a role in accommodating the mobilization of public funds in order to improve the financing capability of national economic sectors. In carrying out this role, Islamic banking has its own uniqueness through its characteristics. Islamic banking is like other Islamic business organizations which established with the mandate to carry out transactions which sticks to the teachings and principles of Islam that does not distinguish between the spiritual and the worldly life

aspects, thus commerce in Islam is also a matter of morality and become a subject in sharia rules (Karim, 2001).

Islamic banking prohibits interest and adopts profit sharing scheme as the basis for the return of investment partnership. Islamic banking with profit sharing principle has become one of the alternative banking system which attracts people. An important characteristic of Islamic banking is to promote the values of Islam that prohibits *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). In addition, Islamic banking always prioritizes the aspects of fairness in trade, refrain from various speculative financial transactions, and promote ethical values, brotherhood and togetherness. By offering a diverse range of banking products and services with more varied financial scheme, Islamic banking become a credible alternative to the banking system and ably reached by all Indonesian people segments without any exception. With its impressive development progress, which reached an average of asset growth more than 65% per year in the last five years (according to the data from the Financial Services Authority), the role of Islamic banking industry in supporting the national economy in Indonesia will be more significant.

The role of information system to produce high-quality business decisions would be difficult to achieve if the information system failed to be implemented. Investment in information system is not cheap so it requires careful consideration of the potential benefits at a cost that will be spent. Legris et.al (2003) explained that the implementation of information systems is costly and has a relatively low success rate. Failed implementation could be caused by poor continuous usage of information technology (Hand, 2005). Heeks (2002) in Park et al. (2009) explained that the underutilization of information system is oftenly associated with the gap between information system design and local user's dimensions such as information (data stores, the data flows, etc.); technology (both hardware and software); processes (the activities of users and others); objectives and values (the key dimension through which factors such as culture and politics are manifest); staffing and skills (both the quantitative and qualitative aspects of competencies); management systems and structures; and other resources (particularly time and money)". Additionally, Hartono (2007) explained that information system implementation failure could also been caused by the presence of behavioral problems associated with behavioral intention and also the acceptance arised from system user interaction associated with the information system. Therefore, understanding the system user-related reasons for the acceptance and rejection of information systems is a challenging and important problem to be studied (Park et al., 2009; Norman, 2014).

There are many models that tried to explain and predict the determinants of information system usage, but the Technology Acceptance Model (TAM) which uses general acceptance as a valid tool obtained the most attention of researchers and academics (Dulcic et al., 2012). The results also suggest that TAM has the strength from its results which generally consistent from year to year (Legris et.al, 2003). TAM consists of six constructs which

includes, perceived usefulness, perceived ease of use, attitude, behavioral intention, actual usage, and external variables (Shyu and Huang, 2011). In general, TAM stated that behavioral intention to use are influenced by two perceptions: first, perceived usefulness which defined as the extent to which a person believes that using the system will improve his performance. Second, perceived ease of use is defined as the extent to which a person believes that using the system is easy (Davis, 1989; Davis et al., 1989). Both of these perceptions of the perceived usefulness and perceived ease of use mediate the impact of external variables on intention to use (Adams et al., 1992; Davis, 1989. Lee et.al (2003) conducted a meta-analysis of external variables that influenced the constructs of perceived of usefulness and perceived ease of use, which obtained by a variety of external variables such as: management support, self-efficacy, voluntariness, relative advantage, compatibility, complexity, of subjective norms, computer playfulness, computer anxiety, etc. Of the many external variables, this study will examine the influence of two external variables that is self-efficacy (Compeau and Higgins, 1991), and management support (Igarria et.al, 1997). Self-efficacy variable as a one's own boost is an internal motivation, while management support has a role as an external motivation for behavior interest of the use of accounting information system. In addition, this study used TAM with four major constructs: Perceived Usefulness, Perceived Ease of Use, Behavioral Intention to Use. This TAM dropped Attitude Towards Using construct because "it added little causal explanatory power" (Money and Turner, 2004).

Self-efficacy is rooted from social cognitive theory which states that by seeing someone else doing something, one will have a perception about his ability to do the same thing (Lewis et al, 2003). Empirically, the correlation between self-efficacy with perceived ease of use proved by Venkatesh and Davis (1996) and Agarawal et al (2000) which showed a strong correlation between self-efficacy and the perceived ease of use. Self-efficacy has positive correlation with perceived usefulness, someone with a high level of self-efficacy will always has great confidence in the his ability in doing certain behaviors such as system usage. A person with high self-efficacy tends to have high expectations of his performance results as well. In order to do this, he will always look for tools that could be useful and have an optimal utility value for him to be able to achieve maximum work (Scott and Walczack, 2009; Park et al., 2009).

Lee et al (2011) explained that adopting technology requires a combined effort on the part of managers and organizations, for both parties is able to form social influence to further affect individuals perceptions related to technology acceptance. This is what underlies the researchersf to examine the influence of management support to perceived usefulness and perceived ease of use construct. Management support is defined as the level of support from managers to ensure the allocation of sufficient resources and act as agents of change to create an environment that ensures the success of the system (Igarria

et.al, 1997). Management support found to have a significant influence on perceived usefulness and perceived ease of use (Xu and Quaddus, 2012; Lee et al, 2011; Konradt et al, 2006; Guimaraes and Igbaria, 1997). The use of management support as variable in this study is based on the idea that the technological implementation can not be separated from organization dynamics and therefore the technology acceptance model (TAM) need to be integrated with organizational and social factors to increase the ability of TAM in predicting behavioral intention to use (Legris et. al, 2003).Guimaraes and Igbaria (1997) explained that the lack of management support for technology-based information system use would be a hindrance and inhibits the usage of information system. The purpose of this study is to examine the influence of various variables of the TAM constructs that is perceived usefulness, perceived ease of use, and external variables, such as management support and self-efficacy, and behavioral intention to use accounting information system in Islamic banking.

2. Literature Review, Hypothesis and Research Model

2.1 Literature Review

Technology Acceptance Model (TAM) was first developed by Davis (1986) and then reused and developed by several researchers such as Adams et al. (1992); Szajna (1994); Igbaria et al. (1995); Venkatesh and Davis (2000). The TAM model departs from the Theory of Reasoned Action (TRA) premise that the person's perception of something will determine the attitude and behavior of the person. In the context of information systems use, the user's perception of information technology will influence his attitude in the system acceptance and use. Several factors that could influence it are the user's perception of the usefulness and ease of use of information system. Thus, the actions / behaviors of that people will use the perceived usefulness and perceived ease of use as the benchmarks.

Davis (1986) explained that the behavioral use of information technology initiated by the presence of perceived usefulness and perceived ease of use. The second perception is belief in the TRA. Davis (1986) defined the perceived usefulness based on the definition of the word useful, which is capable of being used advantageously. Perceived usefulness is believed usability that could be obtained when the individual use the information technology. In the context of organization, usability associated with increased individual performance which directly or indirectly affect the opportunity to gain benefit, whether physical or material and non material. Adamson and Shine (2003) defined the perceived usefulness as a person's belief construct that the use of a particular technology would be able to improve their performance. Venkatesh and Davis (2000) divided the perceived usefulness dimensions into: improves job performance, increases productivity, enhances effectiveness, and the system is useful.

Davis (1989) also described other variables which influence the tendency of individuals using the information technology that is perceived ease of use in using information technology. Ease means without difficulty or liberated from trouble or does not need to try hard. Thus, the perceived ease of use refers to an individual's belief that information technology system that will be used is not bothering or does not require great effort when it's used. The using intensity and interaction between the users and the system would also show the ease of use. The system that is more often used denotes that the system is better known, easy to operate, and easier to use by users (Adamset al, 1992). Venkatesh and Davis (2000) divided the dimension perceived ease of use as follows: clear and understandable, does not require a lot of mental effort, easy to use, easy to get the system to do what he / she wants to do. Perceived ease of use and perceived usefulness, both influence behavioral intention to use which is a behavioral tendency to continue to use a technology (Davis, 1986). Behavioral intention to use is the nature of a person when wanting to try a system or technology.

Management support is defined as the level of support from managers to ensure the allocation of sufficient resources and act as agents of change to create an environment that ensures the success of the system (Igarria et.al, 1997). Management Support is the driving factor that arises from management in an organization. In an organizational setting, especially when faced with the introduction of new technology, oftenly it didn't happened voluntarily, and requires significant changes for employees. Simon (1997) in Lin and Wu (2004) explained that management can play an important role in shaping the organization's values, beliefs, and behaviors. Management Support for technology adoption will send a positive signal to employees about the importance of computer technology for the organizations. In this context, the support of management in innovation and technology has been consistently associated with a higher rate of success in the field of change, innovation, and perception of technology (Lin and Wu, 2004). Sharma and Yetton (2003) explained that the Management Support is an important factor for the implementation of information systems which will require resource-intensive. Substantial material and managerial resources are needed not only to develop information systems, applications and infrastructures, but also to support end users during implementation. Literatures illustrate that the Management Support has a good influence on perceived usefulness and perceived ease of use of the system technology (Konradt et al ., 2006). Guimaraes and Igarria (1997) in Sharma and Yetton (2003) explained that the lack of support from management has contributed to a role as a barrier to implement computer technology and inhibits the use of technological system. In addition, Lee et al (2011) explained that the adoption of e-learning systems require the combined support of the manager and the organization. This is because managers and organizations have attempted to provide material and e-learning resources. From the point of view of users, managers and organizations are keys in the community to learn from

the organization (Yuen and Ma, 2008). Thus, the support of the organization and management form the support of social influences that affect employee's perceptions and acceptance of the system.

Agarwal et al. (2000) explained that Computer Self-Efficacy has seen as one of the important variables to study the individuals behavior in the field of information technology. Computer Self-Efficacy (CSE) is defined by Compeau and Higgins (1991) as an assessment of someone's computer capabilities and expertise to perform tasks related to information technology. Adamson and Shine (2003) defined CSE as individual beliefs on the ability to perform specific tasks, provide degrees of the work done, and persistence in the face of challenging situations. Maharsi and Mulyadi (2007) simply defined CSE as a person's ability to use a computer. From some CSE definitions above, it can be concluded that CSE is an individual assessment on one's own ability to perform computing tasks well. Compeau and Higgins (1991) explained that there are three dimensions of CSE, which included: (1) *magnitude* (2) *strength* and (3) *generalibility*. *Magnitude* refers to the level of capability in computers usage. Individuals with high CSE magnitude level was expected to complete more complex computing tasks with low support and assistance from others, compared to a person with a low magnitude CSE level. *Strength* refers to the level of beliefs on individual's confidence to ably complete the computing tasks well. *Generalibility* refers to the differences domain in hardware and software configurations, so that individuals who has a high level of generalibility was expected to use varied software packages and systems, compared to individuals who have low levels of generalibility. Individuals with higher levels of CSE judge himself as capable to accomplish given computing tasks better without the support and assistance of others, compared to someone with a lower level of CSE (Adamson and Shine, 2003). In this study, researchers used the three-dimensional above as the basis for the questions that will be included in the questionnaire study.

Compeau and Higgins (1991) explained that the high level of CSE will also direct users of information technology to the higher level of interest in the use of information technology as well. In this study CSE refers to an individual assessment of the ability of information technology in improving competitive advantage through the application of AIS with the lack of good support and assistance whether from others, manual guidance on information technology, and help menu on AIS application. Corporate employees with high CSE level will further increase the use level of the AIS application itself.

2.2 Hypotheses

There are a few studies have been attempted to develop a model of TAM by adding some external variables. Research that adds organization variables conducted by Igarria et al (1997). This study used the variables of user training, computing support, and management support. The results of this study showed that this organization variables associated with perceived

usefulness and perceived ease of use, and the use of microcomputer construct. Thus, the hypotheses can be formed as follows:

- H1: Management support influences the perceived usefulness
- H2: Management support influences the perceived ease of use

According to Lewis et al. (2003) the most important variable in explaining the cognitive interpretation of information technology are matters related to the individual that is self-efficacy and innovativeness. According to Roger as stated by Lewis (2003) characteristics of a person would form belief about new technologies by combining information from a number of channels including mass media and interpersonal correlations. Lee, Tae and Chung, (2003) found that self-efficacy has a significant influence on the perceived usefulness and has a critical role in the acceptance of the technology by the user. While other researchers Kulviwat, et al., (2005) found that self-efficacy indirectly influences the attitude through perceived usefulness and perceived ease of use. On this basis, then developed the following hypotheses:

- H3: Self-efficacy influences the perceived usefulness
- H4: Self-efficacy influences the perceived ease of use

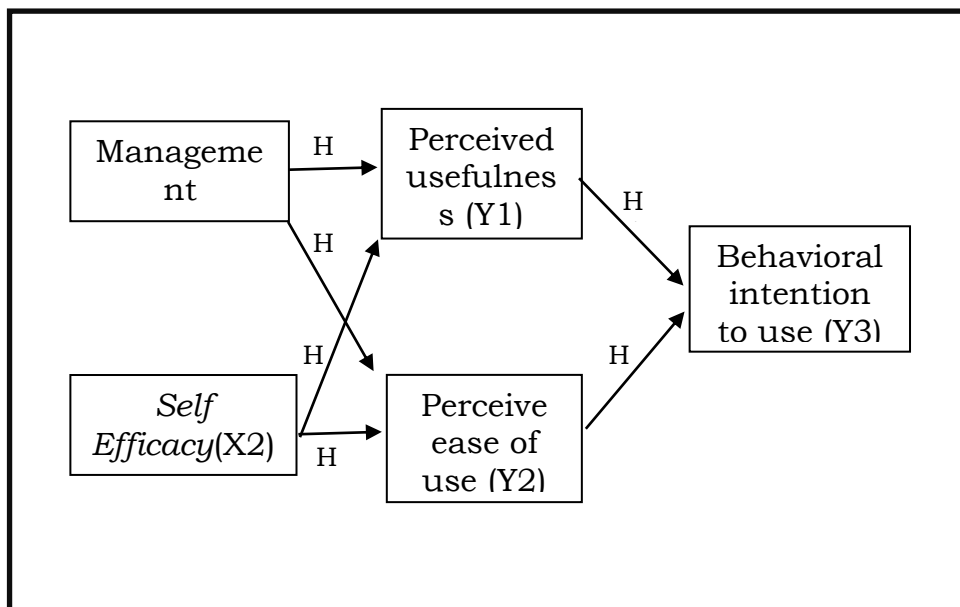
Davis, et al (1989) research showed that perceived usefulness with behavioral intention to use has a strong correlation. Sun and Zhang (2006) supported the research of Davis (1989) that perceived usefulness correlated with behavioral intention have consistent results. Nysveen and Pedersen (2003) examine the correlation between usefulness and expressiveness on parking system adoption. The research results proved that the intention to use was influenced by the perception of the usefulness, ease of use, and self-expressiveness. Perceived ease of use influences the usefulness, attitude, intention, and actual use (Chau, 1996). Davis (1989) stated that the perceived ease of use explained the user's perception of effort required to utilize a system. According to Shih (2004), this perception has an impact on a person's intention to utilize (intention to use). This suggests that perceived ease of use influences behavioral intention to use. Based on this basis, thus developed the following hypotheses:

- H5: Perceived usefulness influences the behavioral intention
- H6: Perceived ease of use influences the behavioral intention

2.3 Research Model

The purpose of this study is to analyze employee acceptance of the technology-based information system. Testing the model was done by using the expanded TAM model by adding an external variables of self-efficacy and

management support. The research shows the correlation between the model variables. Management support and self-efficacy are considered as independent variables, whereas perceived usefulness, perceived ease of use, and behavioral intention to use are the dependent variables. The following framework shows a model of describing the correlations between all variables.

Figure 1. Research Model

3. Research Method

The population in this study are all Banking Staff on Islamic Bank in Malang, East Java. Islamic Bank in Malang city are used in this study population, which consist of Bank Mega Syariah, Bank Syariah Mandiri, Bank Muamalat, Bank Panin Syariah, Bank Jatim Syariah, BTN Syariah, CIMB Niaga Syariah, BRI Syariah, and BNI Syariah. In this study, researchers took samples of Banking Staff of Malang Islamic Bank in their role as the technology-based information system users in their work. In this study, the number of population is not known with certainty so the researchers used one of determining sample method by taking 30-500 respondents described by Sekaran (2006) in which the number of samples to study correlation is greater than 30 and less than 500 samples. In this study, researchers used the method of judgment sampling. Judgment sampling method is a method which involves choices of subjects that have the most favorable place or the best position to provide the required information (Sekaran, 2006). In this study, 347 questionnaires were distributed and 172 (49.5%) questionnaires returned and finally a data sample of 135 (38.9%) of respondents obtained can be processed for hypothesis testing.

Data collection is a standard systematic procedure to obtain the necessary data in the study. Data collection method used in this study is survey method. Method survey conducted by distributing questionnaires containing closed questions with 5 Likert Scale. In addition, interviews were also

conducted to obtain additional data that is not listed in the questionnaire. Some documents were also studied in the context of data documentation related to the development of information systems implementation in Islamic banking.

In this study, the independent variables are management support and self-efficacy, while the dependent variables are perceived usefulness, perceived ease of use, and behavioral intention to use. Indicator variables measurement using a five-point Likert scale. Management support variable was measured with three items of questions based on Igbaria et.al, (1997). Self-efficacy variable was measured with three items of questions based Compeau and Higgins (1991). Perceived usefulness, perceived ease of use, and behavioral intention variables measured respectively with three items of questions based on Davis (1989). In data collection, researchers conducted several steps. First, researchers sent a research proposal to the relevant bank to obtain permission for distributing questionnaires. Second, researchers has several steps to improve the response rate (rate of return questionnaires) associated with the spread through intermediaries. Third, after three weeks of deployment researchers collected all the data and performed initial summary of the results of the filled questionnaires. Descriptive statistics analysis and inferential statistical analysis were conducted to test the hypotheses proposed in this study. Inferential statistical analysis were done using the Generalized Structured Component Analysis (GSCA) approach. Generally, standard steps in using GSCA according to Solimun (2012) are: 1) designing structural model (relations between latent variables); 2) designing measurement model (reflective and formative); 3) constructing the path diagram; 4) converting the path diagram into equation system; 5) estimation: weight, loading and path coefficient; 6) evaluation of the goodness of fit criteria and 7) interpreting and modifying the model.

4. Results of Data Analysis

4.1 Descriptive Statistics Analysis

Respondents were users of Accounting Information System applications throughout the Islamic banking of Malang city. Respondents were obtained from various Islamic Bank of Malang city, which consist of Bank Mega Syariah, Bank Syariah Mandiri, Bank Muamalat, Bank Panin Syariah, Bank Jatim Syariah, BTN Syariah, CIMB Niaga Syariah, BRI Syariah, and BNI Syariah. Respondents characteristic aims to describe the characteristics of Accounting Information System users based on gender, age, education, job position, and length of service.

Table 1. Description of Respondents

Responden	Quantity (people)	Percentage
Gender		

Responden	Quantity (people)	Percentage
Male	82	60.70%
Female	53	39.30%
Age		
20-25	38	28,15%
26-30	65	48,14%
30-35	22	16,29%
35-40	5	3,70%
>40	5	3,70%
Education		
High School	0	0,00%
Diploma	9	6,67%
Graduate	123	91,11%
Post Graduate	3	2,22%
Position		
Teller	29	21,48%
Cs	19	14,07%
Back office	37	27,40%
Account officer	14	10,37%
Staff	17	12,59%
Analyst	8	5,92%
Lain	11	8,14%
Work Duration		
<5 years	74	54,81%
5-10 years	51	37,77%
10-15 years	4	2,96%
>15 years	6	4,44%

Source: Processed data, 2014

4.2 Validity and Reliability of Research Instrument

Validity and reliability of the data were tested. Validity and reliability of the instrument were needed to be evaluated by instrument calibration. Scale reliability and validity were assessed by GSCA. Convergent validity of scale items were estimated by loading factor, reliability, and average variance extracted. Validity of management support, self-efficacy, perceived usefulness, perceived ease of use, and behavioral intention to use was very satisfying. All items of latent variables are significant at .05 or CR>1.96. The loadings for all scale items exceeded the minimum loading criterion at 0.50, and the composite reliabilities of all factors also exceeded the recommended at 0.60 level. In

addition, the average variance-extracted values were all greater than the threshold value of 0.50 (Hwang et al., 2010), and therefore the latent variables have adequate discriminant validity. The internal reliability of the items was verified by computing the Cronbach's alpha and should met the minimum requirement alpha of 0.6. The Cronbach's alpha estimated for management support was 0.681, self-efficacy was 0.663, perceived usefulness was 0.672, perceived ease of use was 0.689, and behavioral intention to use was 0.671. The Cronbach's alpha values from all constructs were all greater than the minimum value 0.6, the constructs were therefore deemed to have adequate reliability. Thus, we concluded that all constructs in the model have adequate convergent validity, as shown in Table 2.

Table 2. Validity and Reliability of Instrument

Variables	Indicators	Loading Factor (>0.50)	Alpha (>0.6)	AVE (>0.50)
Management Support (X1)	Management always support and encourages the use of AIS	0.809	0.681	0.612
	Management provides most of necessary help and resources to enable people to use AIS	0.782		
	Management is really keen to see that people are happy with using computers	0.755		
Self-Efficacy (X2)	I feel confident eclipsing any difficulties of data entry.	0.728	0.663	0.605
	I feel confident eclipsing any difficulties of data processing.	0.862		
	I feel confident getting the AIS-job related work done in any kind of working situation	0.737		
Perceived Usefulness (Y1)	The use of AIS allowed me to complete my job faster	0.702	0.672	0.607
	Using AIS increases my productivity	0.844		
	Using AIS improves my job performance	0.785		
Perceive Ease of Use (Y2)	It is easy for me to become skillfull at using AIS	0.701	0.689	0.617
	I find AIS easy to use	0.841		
	Learning to use AIS is easy for me	0.808		
Behavioral	I intend to use AIS in my daily	0.798	0.671	0.603

Variables	Indicators	Loading Factor (>0.50)	Alpha (>0.6)	AVE (>0.50)
Intention to Use (Y3)	job routine.			
	Given the opportunity, I would use AIS	0.757		
	I intend to keep using AIS	0.773		

Source: Processed data, 2014

4.3 Measure of Fit

In General Structured Component Analysis (GSCA), measure of fit can be done to measurement model, structural model, and overall model. The objective of measure of fit measurement model is to examine the validity and the reliability of the instrument. Meanwhile, the objective of measure of fit structural model were to find out how much information can be explained from the structural model (influence between laten variable). The last one were measure of overall model, which is a measure of goodness of fit (Solimun, 2012; Heungsun Hwang et al., 2010).

The fitness test of the model structurally measured by using FIT and AFIT that equivalent with Rsquare total on path analysis or on PLS. FIT value shows total variance from all variable that can be explained by structural model. The FIT value ranges from zero to one. The higher the FIT value (closer to one), the higher the total variance can be explained by the model. AFIT value equivalent with R-square adjusted on regression analysis and it can be used for model comparison. If AFIT value in one model is higher than others, it shows that the model is the best to use. The results of measure of fit was shown on table 3.

Table 3. Measure of Fit

Measure of Fit Structural Model		Measure of Fit Overall Model	
FIT	0.509	GFI	0.971
AFIT	0.500	SRMR	0.125

Source: Processed data, 2014

Table 3 contain the values of FIT, AFIT, GFI (unweighted least squares) and SRMR (standardized root mean square residual). It was shown that

FIT value was 0.509 and AFIT value was 0.500. While the GFI value was 0.971 and SRMR value was 0.125. The goodness of fit of the structural model and overall model shows that the model that consist of management support, self-efficacy, perceived usefulness, and perceive ease of use could explain 50% of the variance of all variables. 50% of variety of variables of could be explained by the model while the other 50% were explained by another variables that were not included in the model. Also, the value of GFI = 0.971 and SRMR = 0.125 shows that the model has sufficient fit since recommended GFI is = 0.90 and SRMR is considered to be better when it is closer to zero (Solimun, 2012; Heungsun Hwang et al., 2010).

4.4 Hypotheses Testing and Path Coefficient

Based on the resut of validity and reliability test, it was proven that the instrument that being used in this research is met the requirement so then the hypotheses testing can be done. Hypotheses testing were tested by using General Structured Component Analysis (GSCA). There were 5 hypothesis being tested based on research model as shown in figure 1. The result is as shown in Table 4, indicating that all hypotheses were accepted at 5% level of signficance and there were no hypothesis is rejected.

Table 4. Hypotheses Testing and Path Coefficient

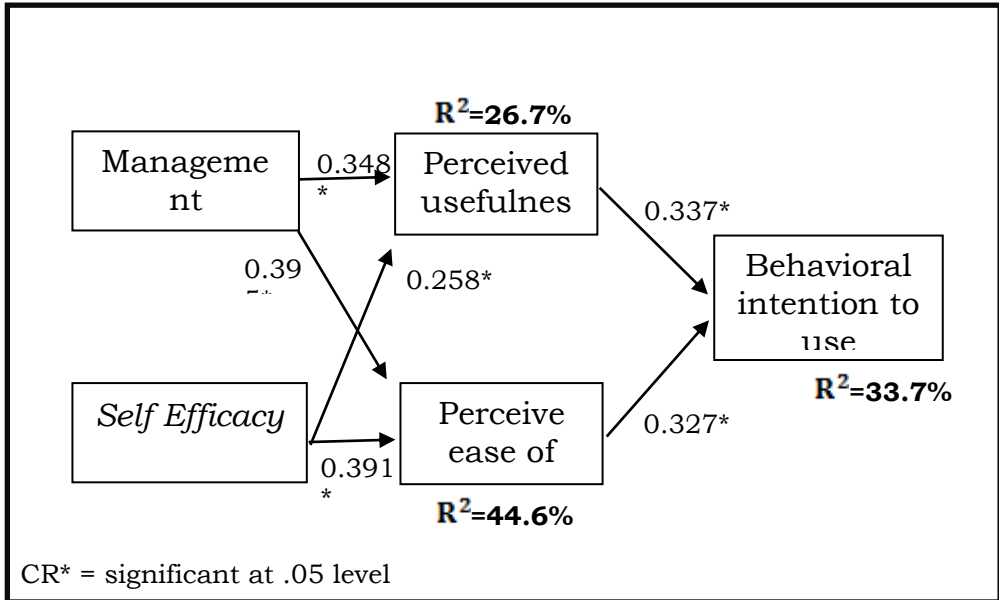
	Direct Influence	Path Coefficien t	CR	Empirical Evidence	
H1	Management Support → Perceived Usefulness	0.348	2.91*	Significant	Accepted
H2	Management Support → Perceived Ease of Use	0.395	4.01*	Significant	Accepted
H3	Self-Efficacy → Perceived Usefulness	0.258	2.14*	Significant	Accepted
H4	Self-Efficacy → Perceived Ease of Use	0.391	4.64*	Significant	Accepted
H5	Perceived Usefulness → Behavioral Intention	0.337	2.92*	Significant	Accepted
H6	Perceived Ease of Use → Behavioral Intention	0.327	2.97*	Significant	Accepted

CR* = significant at 0.05 level

Source: Processed data, 2014

Based on the result as shown in table 4, the following path model could be outlined as follows:

Figure 2. Result of Structural Model



4.4.1 Effect of Management Support on Perceived Usefulness and Perceived Ease of Use

The results of hypothesis 1 testing proved that there are significantly positive correlation between management support (X1) and perceived usefulness (Y1). It obtained parameter coefficient at 0.348 and critical ratio (CR) at 2.91. Because of the value of $CR > 1.989$, H1 hypothesis is accepted. It proved that the greater management support (X1), the greater the perceived usefulness (Y1). These findings indicate that the management support variable has a significant influence on the perceived usefulness when it seen from its coefficient parameter value. The results are in line with the findings of Igbaria et. al (1997); Lee et. al (2011); Konradt, et. al (2006).

Management plays an important role in shaping the behavioral intention to use accounting information system, for management support is key to the formation of the organization's values, beliefs, and behaviors (Simon,1997). Lee et al (2011) explained that management support in the use of technology-based information system would send a positive signal to employees as the users on the importance of technology-based information systems for the organization. In this context, the management support on innovation and technology is often associated with a higher rate of success in the field of change, innovation, and technology-related perceptions. The results of hypothesis 1 testing that founds management support influence on perceived usefulness is not surprising. This is mainly because the previous literatures and researches showed a correlation that

should be significant (Igarria et.al, 1997; Liao & Landry, 2000). This suggests that the perceived usefulness that is adopted by the employees is formed by the management. This suggests that in an effort to support and encourage the use of management information system, management tends to put pressure on aspect of usability.

The results of hypothesis 2 testing proved that there are significantly positive correlation between management support (X1) and perceived ease of use (Y2). It obtained parameter coefficient at 0.395 and critical ratio (CR) at 4.01. Because of the value of $CR < 1.989$, then the H2 hypothesis is accepted. It proved that the greater management support (X1), the greater perceived ease of use (Y2)

These findings indicate that the management support variable has a significantly positive correlation with perceived ease of use (Y2) judged from its parameter coefficient. These results are in line with studies conducted by Xu and Quaddus (2012), Lee et al (2011), Konradt et al (2006). Guimaraes and Igarria (1997) explained that the lack of management support for the use of technology-based information systems would hinder the implementation of technology and become an obstacle to the use of technology. Lee et al (2011) explained that the technology adoption requires a combined effort on the part of managers and organizations, for both parties were able to form social influence to further influence their employee perceptions related to technology acceptance. The results of hypothesis 2 testing which found that management support has a significantly positive correlation on perceived ease of use were in line with the results of previous studies. This were proved by the accordance of the study results with the results of previous studies that showed a significant correlation (Igarria et.al, 1997; Lee et al, 2011; Purnomo & Lee, 2012). This suggests that perceived ease of use adopted by employees formed from management support. This suggests that in an effort to support and encourage the use of management information system, management tends to put pressure on aspects of ease of use rather than usability aspects. Purnomo & Lee (2012) explained that management should carry out their roles and are not limited to encourage their employees to use the system but also includes the improvement of their own learning as well as an increase in employee's perceptions on information systems. Walker (2004) explained that management support is a factor that can predict the acceptance of a technology. Venkatesh (1999) found that during the early stages of learning and system use, the perceived ease of use is influenced significantly by the management support.

4.4.2 Effect of Self-Efficacy on Perceived Usefulness and Perceived Ease of Use

The results of hypotheses testing through the GSCA analysis proved that there is significant positive influence between self-efficacy (X2) and the perceived usefulness (Y1). It obtained parameter coefficient at 0.258 and critical ratio (CR) at 2.14. Because of the value of $CR > 1.989$, H3 hypothesis is

accepted. It proved that the higher self-efficacy (X2), the higher the perceived usefulness (Y1).

These findings support the research conducted by Scott & Walczack (2009) and Park (2009). Confidence in the computer influence on perceived usefulness (utility perception) with a positive correlation means that the higher self-efficacy (confidence in the use of computers) will improve the perceived usefulness of the AIS. A person with a high level of self-efficacy will always has great confidence in the ability to perform certain behaviors themselves such as the use of the system. A person with high self-efficacy tends to have high expectations of the performance results as well. In order to do this, the individual will always look for tools that could be useful and have an optimum utility value to be able to achieve maximum work result. Thus self-efficacy has a positive influence on perceived usefulness.

The results of hypotheses testing through the GSCA analysis proved that there are significantly positive correlation between self-efficacy (X2) and perceived ease of use (Y2). It obtained parameter coefficient at 0.391 and criticalratio (CR) at 4.64. Because of the value of $CR > 1.989$, H4 hypothesis is accepted. It proved that the higher self-efficacy (X2), the higher the perceived ease of use (Y2)

These findings support the research conducted by Venkatesh and Speier (2000). Confidence in the computer influences the perceived ease of use with a positive correlation which means that the higher self-efficacy (confidence in the use of computers) will increase the perceived ease of use of the AIS. Self-efficacy perceived as individual beliefs about one's own ability to perform specific tasks, provides the degree of the work done, and persistence in the face of challenging situations for the use of AIS. This theory is in line with the findings of Maharsi and Mulyadi (2007) that self efficacy is individual assessment of one's own ability to perform computing tasks well. The higher the trust and confidence of users in operating an AIS will increase the ability of the ease of information system use.

4.4.3 Effect of Perceived Usefulness and Perceived Ease of Use on Behavioral Intention to Use

The results of hypothesis testing through the GSCA analysis proved that there is significant positive influence between perceived usefulness (Y1) and behavioral intention to use (Y3). It obtained parameter coefficient at 0.337 and the critical ratio (CR) at 2.92. Because of the value of $CR < 1.989$, H5 hypothesis is accepted. This means that the higher the perceived usefulness (Y1), the higher the behavioral intention (Y3).

The results of this study supports empirical study results of Jiming Wu and Lederer, 2009; Almahamid and McAdams (2010); Friend et al. (2010); Suki and Suki (2011); Mardikyan et al. (2012); Parveen and Solomon, (2008). Wu and Lederer research (2009) found that there is significant influence between the perception of usefulness and behavioral intention in adopting information

systems. Almahamid and McAdams research models (2010) found a positive correlation between perceived usefulness of information systems and e-Government behavioral intention.

These results are not in line with the results of research conducted by Jackson et al. (1997) and Davis et al. (1989) which found that there are no influence between perceived usefulness and behavioral intention to use information systems. Davis et al. (1989) explained that the perceived of usefulness in the early development of a new information system project operation will not affect the behavioral intention. Behavioral intention interpreted as actions or reactions of an object or organism. In Davis et al. (1989) explained that behavioral intention is behavioral tendency to continue using a technology. With the results of this study indicate that perceived usefulness play an important role in shaping the behavioral intention to use of technology-based accounting information system users.

The results of hypothesis testing through the GSCA analysis proved that there are significant positive influence between perceived ease of use (Y2) and behavioral intention to use (Y3). It obtained parameter coefficient for 0.327 and critical ratio (CR) for 2.97. Because of the value of $CR > 1.989$, H6 hypothesis is accepted. It proved that the higher the perceived ease of use (Y2), the higher the behavioral intention to use (Y3).

This research is in line with the empirical results of Turner & Money research (2004) and Sun and Zang (2003) which suggests that perceived ease of use significantly correlated with the behavioral intention to use. Thus, it can be concluded that if a technology or an information system has an ease of use value, the easier a system is used which will increase the behavioral intention of system use by employees. This is because if a system or technology was easy to use, the system users will easily and clearly interact and learn with that system.

5. Conclusion

GSCA (Generalized Structured Component Analysis) inner model to a data sample of 135 on the Accounting Information System users in Islamic Banking gives the following conclusion: management support have significantly positive correlation with perceived usefulness and perceived ease of use, as well as self-efficacy have significantly positive corellation with perceived usefulness and perceived ease of use, and the final conclusion is perceived usefulness and perceived ease of use have a significantly positive correlation with behavioral intention to use. This research suggests that the results of this study are consistent and in line with the results of previous studies. Suggestions for further research may consider the use of external variables related to external motivation proxied by management support and internal motivation proxied by self-efficacy.

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**THE VALUES OF KI HADJAR DEWANTARA'S CRITICAL EDUCATION:
FUNDAMENTAL CONCEPT OF ACCOUNTING EDUCATION OBJECTIVE**

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Abstract

This article analyzes the current of accounting education reality and finds a relevance values that brought by modern accounting with Ki Hadjar Dewantara's thinking. Additionally, this article explores the values of Ki Hadjar Dewantara's critical education as a formulation for basic concept of accounting education objective. Islamic spiritual value, moral value and freedom value which become the findings in this article are still a conceptual framework that requires ongoing study to obtain indicators of each value in order to formulate the concept of accounting education objectives in accordance with character and identity of Indonesian people.

Keywords: Ki Hadjar Dewantara, Values, Accounting Education.

“Hidup manusia itu pokok pangkalnya ialah *berdjoang dan membangun*, tak dengan berhenti-henti”

“Suci Tata Ngesti Tunggal”

(Kesucian Batin, Ketertiban Lahir, menuju kepada Kesempurnaan)
(Dewantara, 1967)

“The principal of human life is *struggle and build*, never give up”

“Suci Tata Ngesti Tunggal”

(Purity of Mind, Physical Orderliness, leading to Perfection)
(Dewantara, 1967)

When we are hearing the names of western critical thinkers such as Max Horkheimer, Theodor Adorno, Wiesengrund, Jurgen Habermas, Georg Lukacs, and another Frankfurt ideology (*Frankfurter Schule*)¹ alumnus, naturally we can think to use their thought as an approach or theory in accounting research. For example, Pujiningsih (2013) doctoral research, entitled “Colonization and Liberation Lifeworld Higher Education through Budgeting as Steering Media (Case

¹Most writers in Indonesia translating “*Frankfurter Schule*” with the “Frankfurt School”, but the word “*schule*” here does not mean “school”, but rather “a tradition of thinking” or “ideology of thought” (Magnis and Suseno, 1992:173).

Study of State University Public Service Board)". The study uses Habermas Critical Theory² as a methodological approach and as a tool of analysis is Habermas's Communicative Action Theory.

Then, how if we hear names like Nataatmadja, Tjoet Njak Dhien, Ki Hadjar Dewantara or Tjokroaminoto? Maybe, most of all readers still feel 'strange' with their thinking. And now, what related their thought with accounting? The answer is founded in this article. Kamayanti (2013), entitled "Critical Accounting Research: (Non) Feminism Tjoet Njak Dhien Approach", Mulawarman (2013) entitled "Songs of Accounting Methodology *Ala* Nataatmadja: Beyond Derridian Developing "Self" Nation Thought", as well as research was done by Latuconsina (2014), entitled "Reconstruction Concept of *Murabahah Margin* Determination: Critical Perspectives of Tjokroaminoto Islamic Values". From that article, we are as one of young generation, if we have desire to explore the values of national leaders thought, then we can use it to developing accounting science in accordance with the character of Indonesian people. In other hand, these articles also give evidence that the thinking of national figures are in line even beyond the ideas of Western critical figures, then, why are not we proud to use the ideas of national figures for developing accounting research?

Ki Hadjar Dewantara (KHD) is one of national heroes who focus of his struggle on education. Of course, KHD's thinking 'breath' struggle to liberate Indonesian people from the shackles of colonial imperialism. Were that thing we called, critical thinking? Kamayanti (2013:362) explains "All forms of struggle against colonizer is a evidence spirit of emancipation and alteration that are fundamental worldview of what we know as the critical paradigm". The basic of KHD's education values cannot be separated from the environment of his life, such as family, social community and national life. Indeed, KHD's thinking in education is general and holistic, so it is not specific to education in a particular field. It is become a challenge for me, especially to interpret and seek its relevance with accounting education.

Development of critical theories from national heroes thinking is one of evidence our love for this country. How could not? When modernization brings us oriented to western science that does not necessarily appropriate with culture and characteristics of Indonesia, then it will reduce nationalism of young generation. Indonesian people has its own characteristics with their religiosity, have tradition and ethics in their society and also each individual have a good moral. All of this characteristics are reflected in the basic of country, namely Pancasila. Thus, accounting education should be a reflection of nation's cultural and character, surely accordance with the values of KHD's thinking. As one of the 'gold' generation of this country who constantly struggle to expel the colonizer, KHD's love to this country should be a guide for all Indonesian young people. *Yes*, like a KHD's advice that I put at the beginning of this article, every human should be continuously struggle and build civilization according to its capacity. As a sovereign nation, whatever form of colonialism and everything that is not in side of Indonesian people's interests, the struggle does not finish yet. It is mean, the freedom of physical and mind absolutely to be fought!³

²Jurgen Habermas is the leading figures today, a school of philosophy that since 60 years more influential in the world of philosophy and social sciences, namely critical philosophy (Magnis and Suseno, 1992:175).

³Kamayanti (2013:363) describes that mindset of love to Indonesia, namely "Alignments for Indonesian liberty, it is actually becoming a basic requirement of building Indonesian Critical Theory."

This article is a conceptual framework to understand the values of KHD's critical education and its relevance to the current accounting education. The values of KHD's critical education derived from the meaning that I did after reading carefully and thoroughly from KHD's book entitled "Education" (book I) and "Culture" (book II). Therefore, the composition of this article starts from condition of current accounting education reality and then explore the values of KHD's critical education as a basic development concepts of accounting education purposes. However, in this article does not explained how an ideal concept of accounting education purposes in accordance with the values of KHD's education thinking, so this article is a beginning framework to formulate the concept of accounting education purposes.

In explored the reality of accounting education, of course, it can not be separated from the reality of accounting itself. Why do I say that? Yes, the values were brought by modern accounting internalized through education so it can shape character and personality of the student. So, between education and accounting intertwined into a process that can take the values contained in the accounting itself. Then, what the values embedded in the modern accounting? Let's us contemplate and enjoy my explanation below.

Results and Discussion

Reality in accounting education (a study literature). Within the past few years, accounting became a trending topic in social science research, not only in the international world, but also in Indonesia. Why do I say that? Of course, it is related to development of non-mainstream⁴ accounting research paradigm as a counterweight of the mainstream paradigm which has been the 'queen' in accounting research globally. Of course, in this globalization world, accompanied by changes in the development of science (including accounting), it is necessary to find a new paradigms as an alternative to shaping civilization science. It is similar to the following statement.

"The globalization of accounting is in place, and the emergence of a way to consider and reflect upon the new paradigm is essential." (Apostolou *et al.*, 2013:147)

Thoughts related to the development of multiparadigms accounting research been written by (Djamhuri, 2011). In this work, he described the conventional understanding of accounting and its relation to positivist perspective (functionalism). Furthermore, there is a discussion in the accounting status and its implications according to Belkaoui (1992) which is a multiparadigms discipline, and then presented in depth the differences perspectives that developed in accounting research. To accommodate the diversity of thought in accounting research, there are some published scientific journals (both national and international) including *Accounting, Organizations and Society* (AOS), *Critical Perspectives on Accounting* (CPA) and *Journal of Multiparadigm Accounting* (JAMAL).

One thing that becomes an interesting study when looking at a substantial difference between mainstream and non-mainstream perspective is the mainstream views, accounting becomes value-free science, but according non-mainstream views, science will be full of values (value-laden) that forms a reality, including accounting

⁴The term of non-mainstream and mainstream paradigm was introduced first by Chua (1986).

(Triyuwono, 2011; Setiawan, 2011; Djamhuri, 2011). Even explicitly in the inaugural speech of professor degree, Triyuwono (2006:2) describes that "Accounting is not possible to be free of value, because the process involves the creation of human who has a personality and full of interest." Furthermore explained by Triyuwono (2006) that the main value inherent in modern accounting is egoistic and materialistic. Both of these characteristics are then engaged in utilitarianism⁵ and forming a building of capitalism. The characters in modern accounting (conventional) then caused dehumanization, even taking a human alienated with God.

The research related to the values contained in the recent of conventional accounting is done by (Kamayanti, 2011). The objective of her research is explained that the desire of researcher to build awareness about the existence of "beauty's" trap namely masculine, colonization and relativity to be achieved in accounting education, then it is criticized and propose an alternative paradigm in accounting education. Furthermore described in her research, the concept of masculinity, colonization and relativity evidently become a basic philosophy of current accounting education, namely secular. The research findings of Kamayanti (2011) can be said to be 'a slap' in recent accounting education face that are very comfortable with *status quo*. The important thing here that for the mainstream paradigm, accounting science in a good condition and nothing needs to be changed.

Similar but not same, Ekasari's (2012) research aims to reconstruct the accounting education in Vocational Higher Education which generally education and especially accounting and accounting itself is embedded with the value of capitalism, materialism, individualism and Secularism. Ekasari's (2012) research gives a second 'slap' for accounting education face, especially in vocational higher education, that the accounting knowledge is taught to students contains values that actually is not good for future accountants. Therefore, Ekasari (2012) describe that the reconstruction needs to be done in order to make students not only be clever in accounting but very important element is internalization Ethics, Moral and Spiritual (EMS) when entering the work place.

It is clear from several result studies of accounting education that there is a correlation between accounting and its values, so it requires a 'tool' to internalize these values. Yes, of course, education is the answer. With education, the process of internalizing the value can be realized through the process of learning between teachers and students. It could be said that education has power for shaped the civilization of mankind, of course related to the development of science. So the question, Are values contained in the current accounting education has been oriented on the value of kindness? Are concepts in current accounting education has been realized concept of worship into God? And the last question, is the form of accounting education in accordance with the culture and characteristics of Indonesian people? Let's us muse for a moment with a pure of mind and heart, and still put our trust (*tawakal*) to Allah SWT.

Accounting education concept used in Indonesia is still referring to the IES (International Education Standards) for professional accountants issued by IFAC (International Federation of Accountants) through one of the board which organized international accounting education is IAESB (International Accounting Education Standards Board). Why does Indonesia as a great and sovereign country still

⁵Basically, utilitarianism have assumption that good or bad values of act is measured in the absence of utility (surely the meaning is material) which resulted from an act (Triyuwono, 2006:3).

‘obedient’ on IFAC policy? Do IAI (Indonesian Institute of Accountants) as the organization to accommodate the interests of all accountants (both educators and professionals) does not make its own standards in accordance with the culture and characteristics of Indonesian people?

As one of IFAC member, Indonesia, as well as the others of IFAC members, should be ‘obedient’ in provisions of SMO (Statement of Membership Obligation) which each of IFAC member country is expected to implement IES (International Education Standards) in the educational process for professional accountants. It is clearly described in the Proposed Framework for International Education Standards (2014) issued by the IAESB below.

“The IAESB is conscious of (a) the diversity of culture and language, educational, legal, and social systems globally, and (b) the variety of roles performed by professional accountants. Therefore, the IESs are principle-based standards of IFAC member bodies that allow flexibility in implementing the requirements of the IESs. **Each IFAC member body needs to determine how best to implement the requirements of the IESS and is subject to the Statements of Membership Obligations (“SMOs”).** The IAESB also recognizes individual that IFAC member bodies may adopt learning and development requirements that go beyond the IESs.” (IAESB 2014:21) (bold statement is done by researcher)

However, in the first sentence of this statement explained that IAESB aware the diversity of culture and language, level of education, legal/law, and the social system as a globally. It means, there is still a ‘space’ for each country to develop IES (International Education Standards) in accordance with the evolving culture and characteristics in each IFAC member country.

IAI-KAPd (Indonesian Institute of Accountant-Accounting Academics Compartment) as the organization that operated the interests of accounting education in Indonesia has actually made a draft of Indonesian Accounting Education Standards (*Standart Pendidikan Akuntansi Indonesia/SPAI*). However, it is surprising what the findings of Kamayanti’s (2011) research that there are some parts of SPAI’s draft is a summary and translation in a part (and some of it is full) from IES (1-8). More details are presented in the following quotation.

“However, the most important issue in the SPAI preparation is in its contents that have the IES-IFAC-adopted guidelines. A comparison of SPAI and IES (1-8) shows that SPAI translates and summarizes IES (1-8) (see appendix 1).” (Kamayanti, 2011:97)

When I tried to more explore in appendix 1 of Kamayanti’s (2011) study, it was written clearly by her the comparison evidence that shows SPAI’s draft is a translation (either partial or full) from IES (1-8). It is ironic that Indonesia as a great and dignify nation can not modify the accounting education standards were adopted from IES in accordance culture and characteristics of society, namely Unity in Diversity (*Bhineka Tunggal Ika*).

When IFAC requires all of member states to obedient SMO (Statement of Membership Obligation), certainly there is a ‘thing’ behind it. Kamayanti’s (2011: 98) findings explain that “Accounting Education, by following the IFAC framework, therefore would be directed by the market that uses the products of education for its needs”. Yes, market become a great power and can determine the direction of professional accountants education through IES implementation mechanism. By doing so, it can be said that the accountants who resulted from accounting education process

will become a market commodity and then work to manage a company's finances. It is so-called political mechanism in the frame of market capitalism? A similar statement was expressed by Kamayanti (2011:100).

“Through these chains of power, it can be seen that the market, to which IFAC is oriented, might be the most powerful institution that governs the accounting education direction. Thus, the market that operates on a *laissez faire* mechanism, would represent the existing capitalism.”

In other hand, Kamayanti's (2011) findings that related with “market is IFAC oriented” and represent “the existing capitalism” also founded in the mission of IFAC education committee in explanation of Framework for International Education Statements (paragraph 9, p. 4) below.

“The mission of the Education Committee is to, **serve the public interest** by the world-wide advancement of education and development for professional accountants leading to harmonized standards”. (bold statement is done by researcher)

From quotes “to serve the public interest” become a substance of mission the IFAC education committee and this concept is adopted in SPAI's draft issued by IAI-KAPd, this is a justification that IFAC is “market-oriented” or pro-market. Of course, the value contained in market mechanism is free competition, so it would appear egoism⁶ and individualism⁷ value within professional accountant.

More related analysis in the Framework for International Education Statements look ‘awkward’ in paragraph 20 below:

“International Education Standards for Professional Accountants prescribe standards of generally accepted “good practice” in education and development for professional accountants.” (IFAC Education Committee, 2003:7)

I can interpret how IFAC very expects the member country to implement IES ‘better’. Is this not a form of forcefulness? Though clearly explained in the beginning that IFAC education committee recognizes the diversity of cultures, languages and social conditions of its members. Furthermore, that explained in paragraph 20 in the explanation column below.

“The Standards establish the essential elements of the content and process of education and development at a level that is aimed at gaining international recognition, acceptance and application. Hence, member bodies must consider reviews these requirements.”

This statement shows evidence that there is not an oddity if SPAI's draft ‘plagiarized’ IES (1-8) either full or in part. In my wonderful hopes, if we are as a great and dignified nation can determine direction and policies of accounting education without intervention of foreign nations.

Furthermore, paragraphs 39 and 41 in IES (International Education Standards) which describes the capabilities and competence are:

⁶According KBBI, egoism is behavior that is based on the encouragement to benefit themselves rather than for the welfare of others.

⁷According KBBI, individualism is a way of view that consider themselves (personality) is more important than the others.

“Capabilities are the professional knowledge; professional skills; and professional values, ethics, and attitudes required to demonstrate competence.”(IFAC Education Committee, 2003:12)

“Competence is being able to perform a work role to a defined standard, with reference to real working environments.” (IFAC Education Committee, 2003:13)

Two important things that are emphasized in the Framework for International Education Statement proves that IFAC education committee want the output of accounting education process will form the prospective accountant who has good capability and competence. It is not entirely wrong, because capability and competence are two important things that must be owned by prospective accountants to work. However, if only two things that are emphasized in the educational process, then it cause intellectualism⁸ and materialism⁹ values inside the accountant.

Linkage Ki Hadjar Dewantara’s thought with current accounting education reality. From description of the values that became a essence in the current accounting education, much earlier, one of Indonesia’s hero, Ki Hadjar Dewantara, in his first book entitled Education (1977) apparently had criticized educational values that brought by the colonizers. As the following quotation.

“At the present time, our children were study in school also get the influence of school system in Europe. For example, they were generally have a rough characteristic, lack of humanity that also causes lack a sense of social, so it is appearing egoistic and individualism values. Do not be explained again that two of this characteristic is solely destroy orderliness and peacefulness of the world.”(Dewantara, 1977:106)

Scientifically, what is explained by KHD is a general value of education that brought by the colonizers and applied in Indonesia. However, if it was compared with current accounting education, there was a same things with KHD’s thought (such as evidence about criticized IES that I gave at the beginning of this article). *Yes*, we like ‘driven’ by international organizations in order to follow standard concepts on behalf the union of system globally, not only in the accounting education, but also accounting itself with IFRS convergence to the countries members of IFAC.

In other hand, KHD also speaks about colonization that done by Netherland to Indonesian people. It was his explanation.

“Colonial politic which intends to take the results as much as from Indonesian soil for welfare of Netherlands itself. With it, actually has illustrated the spirit of materialism and capitalism from Netherlands.” (Dewantara, 1977:137)

What are explained by KHD were highly correlated with condition of accounting education (and accounting itself) that developed at this time. How could we not aware to ‘occupation’ in the modern accounting? Convergence of IFRS (International Financial Reporting Standards) to most country in the world is an attempt to unify the accounting reporting system in order to be comparable (comparability principle) with

⁸According KBBI, intellectualism is obedience or adherence to exercise the power of thought and search for something based on science.

⁹According KBBI, materialism is a basic philosophy of life who are looking for everything, including human life in the material realm solely to the exclusion of everything, such as natural senses.

other companies in different countries. This is consistent with the objectives of IASC (International Accounting Standards Committee) in standard-setting, which is "to improve and uniform the general of regulations, standards, and accounting procedures relating to the presentation of financial statements." (Kieso et al., 2002:22). And the ultimate goal of uniformity accounting standards is an alternative existence of capitalism. It is like a statement Walker (2010:150) follows.

"Mandating a single set of accounting standards designed to accommodate the needs of liberal stock market economies, risks doing harm to the alternative forms of capitalism that may be necessary for the long term development of the world."

Furthermore associated with materialism, KHD stated that school is a 'place' to grow up education values that brought by colonizer thus eliminating morality of Indonesia people. It is his explanation.

"The public schools in Netherlands period was very ignoring principles and basic humanity, otherwise very affirming spirit of worldliness generally, especially the spirit of greediness thing, namely "materialism". The spirit of materialism deadly all noble humanitarian ideals, so it degrades humanity of our nation." (Dewantara, 1977:148)

Teaching system in the school was controlled by Netherlands did not escape the attempt to instill values that can damage the character and ideals for the struggle of Indonesian people. KHD state that:

"The system of teaching which is not based on the spirit of culture by itself would be an intellectualism. Furthermore, besides materialism and intellectualism, disease arising from the presence of western teaching system is a sense of individualism that separates the individual or person to another. Gone "family's sense" in communities across Indonesia that actually be holy and strong affinity as well as a solid basis for holding orderly and peaceful life." (Dewantara, 1977:137-138)

Surely, it is a noble ideals from one of 'gold' generation in this country to create a liberty from colonialism in our every life. In the context of accounting education, I feel that the statements are described by KHD in this book is very relevant to the realities of accounting education, especially in Indonesia. For example, Indonesia as one of the IFAC members must comply with SMO, and the consequences are required to adopt the IES as standard to be applied in Indonesia. Unfortunately, SPAI's draft is a partial translation (and there are some fully) of IES (1-8). It is indicated that this country to be aware and have willingness to be colonized indirectly by foreign nations (west) through its policies. So, where is the national identity (liberty legality) as long as 69 years?

Actually, KHD has given 'signs' in order to deal with culture and all of intervention forms from foreign nations to Indonesia, where KHD is very polite, humble but distinct to provide limitations associated with it. There are more details about it.

"To make it easier, save and enhance the entry of materials and objects from cultures of other nations in the world into the culture of our nation, then it is necessary to put "Tri-kon principle", namely: (1) "*Kontinuitet*", which means that recently our lives must be a "continuation" of our lives at the last time, do not "repeat" or "imitation" of other people lives. (2) "*Convergence*", which means the need to avoid "living alone" (isolation) and toward the meeting with other nations in the

world. (3) “*Konsentrisitet*”, which means that after we are “united” with other nations in the world, but not lose “personality” of our own.”(Dewantara, 1977:228)

In the context of accounting education, the actual principle of Tri-kon could be a ‘filter’ to adopt IES into SPAI. Even the concept of Tri-kon has been very clear that we as an independent nation, can not imitate absolutely against other nations, because we have a culture and characteristics that different from other nations. Besides that, KHD also confirms that we do not lose our identity (personality) as a sovereign nation. This means that we should not be arranged by any country because we will determine the direction and policies which the best for all Indonesian people. And the reality of what happened in current accounting education is opposite of nation ideology, will we as young generation should be silent and stand by seeing this reality?

And finally, the estuary of values that embedded in the IES’s conceptual framework contained in the definition of accounting education purpose below.

“The goal of accounting education and practical experience is to produce **competent professional accountants** capable of making a positive contribution reviews their lifetimes over to **the profession and society** in the which they work.” (IFAC Education Committee, 2003:27) (bold statement is done by researcher)

So with an explanation of the purpose of this accounting education reinforces my belief that accounting education directed to form a competent professional accountants candidate (an expert in the field of accounting) to provide his contribution to profession and public society (market interest). It is not entirely wrong, but did this goal involved accountant to contribute to his/her Lord? If God is no longer included in the accounting education purposes, did this means a professional accountant candidates no longer need *hidayah* (guidance) and *inayah* (protection) from God? It is called negating God in the context of science (secularization)? *Astaghfirullahal'adzim*¹⁰.

Exploring the values of Ki Hadjar Dewantara’s critical education. From KHD’s thinking that has been written in the first book about education and a second book about culture, if we look deeply, it will be very much values that can be learned as a basis of ideal education in accordance with national identity. I do self-reflection deeply when trying to find any values that can be used as a basic formulation for concept of accounting education purposes. Of course, this is not an easy work because there are various kinds of values and ideas that we can take a lesson for general education. But, in this article, I want to explore KHD’s thinking values that has been related with accounting education. I have found three fundamental education value of KHD’s critical thinking that as one of the ‘gold’ generation of this country.

Islamic spirituality value. In the view of many people, both of academics and historians, KHD as one of the liberty fighters are very close with nationalism thinking. It is not entirely wrong, but when I explored deeper his writings, it will be found some other values. These values indicate that he is an idealist person. When Netherlands and Japan colonizing Indonesia, all of the people submissive and obedient to the orders of colonizer, only Indonesian people who dare and idealist can against all of colonization forms.

¹⁰In Islam tradition, this statement expressed to request a mercy from God.

Selection of Islamic spirituality¹¹ as one of the KHD's value thinking is a deep reflection after I have read his first book about education. He is a person who has holistic thinking, where the level of his 'depth' thinking does not stop at one viewpoint, but rather includes overall dimensions about an ideal concept.

In some KHD's writings related to spiritual dimension of Islam, he clearly recognizes that God is one (*Laa ilaaha illallah*) (there is no God except Allah SWT). This is the essence of *Tauhid*¹² in Islam. Allah is the one regulator of life and gives a mercy for all, including the blessings of freedom for Indonesian people. In this way means that Islam becomes a way of life both in the world and the hereafter as well as basic needs (Rahman, 2011:43). All of this thinking is contained in the following sentence.

"We have developed so far away, to be clear and bright for us, because the regulator of life, holding the entire leadership forever in His hands, not for self-interest, but because of love towards us, His creatures, and for orderliness of entire life." (Dewantara, 1977:50)

KHD also talked about faith as the embodiment of ideal noble as a religious nation and dignity to achieve the orderliness and beautiful life. It showed a civilization that created as a result of the educational process is also a gift from God. So, we as a human must have faith in our heart. KHD stated:

"The sense of faith that causes humans capable and able to improve their lives, to whisper his soul, to punish himself, or encourage the desire or willingness towards sublime and beautiful goal." (Dewantara, 1977:478)

KHD's writings related to Islamic spirituality is also seen from his thought about the nature of soul, which as a man that has religion and morals, we must believe in the existence of supreme power that controls the entire universe and the hereafter, Allah SWT. KHD's statement related about it.

"In the religious world about psychotherapy was not undervalued, but the main concern is about soul essence, especially the existence of God, the invisible ruler, and about the human relationship with the hereafter life." (Dewantara, 1977:424)

From KHD's statement above that we as a humans do not forget the 'invisible ruler' in every aspect of life. That means, aspects of mental (spiritual) which relate to the God becomes one of the important things in life. In essence, humans should effort (*ikhtiar*), and Allah SWT that determines the outcome (*tawakal*). It also shows that KHD's spiritual aspect of Islam can be made as a thinking model for all students.

In current accounting education reality that I have been described earlier, I provide evidence about the values were taken by western accounting education concept (IES), one of them is materialism. KHD strongly disagree with materialism value if it applied in general education (also accounting education in the context of this article). If materialism value is too dominant in the growth of student soul, it will grow a thinking that loves the world. It also means that through education, student will be

¹¹Islamic spirituality is a human psychological characteristics are manifested in a good works that sourced from religious values, guidance the prophet of Muhammad SAW, and the light of Allah SWT (Rahman, 2011:43).

¹²Triuwono (2012:189) describes the ontology of Tauhid is a self-awareness that always feel the presence of God in time dimension and place everywhere else.

‘driven’ his/her consciousness to love the world, without thinking more eternal life, namely hereafter. For anticipation this trend, KHD more emphasis the education that nuanced Islamic spirituality to guide students in order to keep orderliness of physic and mind. This is one of form KHD’s idealism in conceptualizing spirituality in education. His detail explanation is:

“Material lust, generally invisible in our lives, otherwise we hate materialism and inviolate idealism. Arises sublime delusion, devotion to God or invisible power (*religie*), like to help the others and so on.” (Dewantara, 1977:90)

Nevertheless, furthermore explained by KHD, indeed the concept of western education contained materialism value, and we as a civilized nation should not be trapped, then he emphasizes a balance between material and spiritual life, both physically and spiritually. Yes, the balance is a key for sublime and civilized human life. This is an explanation about it.

“Education is the way of keeping physic and mind towards the children to advance his material or physical and mental or spiritual one.” (Dewantara, 1977:436)

Mind character (moral) value. KHD is one of the national fighters who have a good character, distinct, and soft personality. I can tell about him like that because I interpret the quote below.

“Mind character (*budi pekerti*), attitude or character, which is the unification thought, feeling and volition, and then arise power. Knowing that “mind” means “mind-feeling-volition”, and “character” that means “power”. So “mind character” is a human soul, begin with idea until become a power.” (Dewantara, 1977:25)

Mind character is a basic value (intrinsic) of a human who can be grown through education and teaching, where that value is a combination of idea (mind), sense (feeling) and intention (willingness) as a core component to form a civilization that have a good morals. Efforts to realize this main thinking is a process of education as described by KHD. “Generally, education means a power to promote the growth of mind characters (*budi pekerti*).” (Dewantara, 1977:14)

As a core component in forming a good human, KHD explained in detail what it called a “*tri-sakti*” of soul (idea, sense and intention), namely:

“Idea” is the power of thinking, which is searching for the truth of something, with compare a thing or one situation with another, until can know the difference and the same (Dewantara, 1977:451)

“Sense” is all about our hearts, which are causes glad or sad, shy or proud, satisfied or disappointed, bravery or afraid, love or hate and so on (Dewantara, 1977: 451-452).

Willingness or “intention” always arise in addition and as a result of thoughts and feelings. Actually, “willingness” is continuation the natural passions that exist in the human soul, but has been considered by mind and refined by feeling (Dewantara, 1977:452).

The unity of “*tri-sakti*” is described further by KHD as the embodiment of sublime human mind. So, the balance between three concepts of human psychological can make a whole human personality, and did not separate between material and spiritual. Of

course, education become a process that all these values are transferred to students in order to be a decency, fair and civilized human.

The danger of intellectualism that I have explained yet in the current accounting education reality, then mind character is a solution which can neutralize the influence of western education concept. Implementing mind character through education, the students would not be trapped by the power of mind as the source of all inspiration and solution problems being faced. Mind is not being the only 'tool' to develop intelligence and conceptual thinking. So in this case, it is needed a balance to form the human who is virtuous and have good morals, namely the power of mind and soft feeling (mind character/*budi pekerti*). This is KHD's statement that showed the danger of intellectualism.

"Efforts to reduce the danger of intellectualism that has been done by various ways, such as by promoting scout, with various youth organization that is based on the social education, to promote the spirit of sport and arts, with mind character of teaching and other positive efforts." (Dewantara, 1977:192)

In other words, KHD's idealism in order to realize a virtuous human life is not only achieved by intellectual mind, but rather refinement and maturation of the soul. So, the role of education is very important to establish the ideal conditions such KHD's ideals below.

"With education of softening feeling, our children that should receive extensive and perfect intelligence of soul, so they should get a rather lofty level as a human (increase the *niveau human*)." (Dewantara, 1977:324)

Furthermore, KHD explained that with education and teaching of mind character, the positive impact that follows is the students are liberated from shackles of life, including hegemony of western education concept. It means educational concept combination of Islamic spirituality and noble mind character will make individual students become an independent and self-sufficient as KHD's following statement.

"With the 'mind character' that every man stand as an independent human being (impersonal), which can order or control himself alone (independent, *selfbeheersching*). This is the essence of man who civilized and it is an intent and purpose of education in general." (Dewantara, 1977:25)

All of KHD's explanation about mind character similar to the thought of Rahman (2011:42-43) states that "good manners (*budi pekerti*) is a reflection of noble-minded man who embodied in the noble attitude and actions." Thus, sublime mind character is inseparable from Islamic spirituality role of human, where the substance of Al Qur'an and Hadith is guidance for our life. Yes, this is represent Islam as a *rahmatan lil'alam*¹³ religion.

"With a noble mind character, Muslim will benefit for themselves, others and the environment, as the concept of mercy for all, and with mind, human life becomes more advanced and dignity." (Rahman, 2011:43)

¹³Mercy for all His creatures. This is the essence of revelation Islam to the world as the giver of grace for all human beings, creatures of Allah SWT.

Independence (liberty) value. As a sovereign nation, Indonesia should live in freedom without reliance from other nations, in many aspects such as education, politics, economics, government and many others. Indeed, as a democracy country, Indonesia need an aid from other country, but it does not mean that this aid become a 'trap' for Indonesia to move freely in accordance with culture and characteristics of the society. Moreover, if this aid was actually 'drive' all policies issued by government. Is such a thing called an independent nation?

"Independence is the nature of cultured human life. Independence has two properties, namely the birth of "freedom" nature that means free from coercion or command others. The second nature is an inner, we should consider the contents of freedom, and this nature namely stands alone (self). Thus, this is a meaning of "independent": it can stand alone and free from coercion and command others." (Dewantara, 1977:478-479).

According to KHD, as a nation which have a culture as a thought from mind character, it is properly that Indonesia has a free and independent nature. Free means as an independent nation, Indonesian should not be obedient from any foreign interests, even very possible that Indonesia should become a trend setter in many ways, including the education system. In the other hand, Indonesia also should not be forced to implement a western policy that contained political interest of certain parties (especially in education). Independent nature can be interpreted as a great nation, Indonesia must be able to 'stand' on its own character, that mean when a culture or whatever came into Indonesia, it must be completely filtered and understood whether in accordance with the values of Indonesian people? If it does not, we must firmly reject this foreign culture, because we have own culture to realize a civilization based on morality and nobility of mind character. In essence, whatever form of 'colonialism' from foreign parties that may threaten the independence of Indonesia, physically and spiritually, we should firmly reject it.

One of the things that became a focus of KHD's struggle in order to liberate from colonialism hegemony is education way. With independence in terms of education, Indonesian people are not necessarily obedient with foreign interests. It is a form of KHD's partiality to realize Indonesian independence in all aspects of life, both physically and spiritually. More details about KHD's main ideas contained in the following statement.

"In education must be remembered, that liberty is of three kinds: a stand-alone (*zelfstandig*), do not depend on others (*onafhankelijk*), and can regulate itself (*vrijheid, zelfbeschikking*)." (Dewantara, 1977:4)

Independence is always identical with the struggle. Yes, there is not a great thing obtained easily without struggle of its society, including education in this context. Therefore, we should not be trapped with all forms of *status quo* hegemony, although it make our lives comfortable. Because in this comfortable zone, we can found a motives and interests of other nation power. KHD firmly expects to always fight against all forms of oppression, especially for Indonesian people. KHD state that "From its nature, every human have an ability to struggled and build. Now, many people are forgetting to struggled and build continuously as long as her/his lives." (Dewantara, 1967:92-93)

The meaning of struggle in education terms that described by KHD as a maintenance process of life and livelihood in a progress direction, did not continued

remnants of colonial era. It is done to realize that Indonesia as a civilized and noblenationwith the main goal is enhancing degree of human subjects.

“Education is a effort ofbuilding. This is true, but in my mind is less complete. Education is done with conviction, directed towards the safety and happiness of human beings, not merely conduct “building”, but often a “struggle” as well. Education means maintaining life-grow in a progressdirection, should not continue the past condition. Education is a culture effort, have acivilization basic, which promoted the human life in order toincrease degree of humanity” (Dewantara 1977:165-166).

Conclusion

All of the content that I have been described in this article is a result of my meaning, contemplation and reflection as a writer, then the values of KHD's critical education is not limited in this article. For me, the three values (Islamic spirituality, Morality (mind character)and Independence) are fundamental concepts in constructing accounting educationpurpose. Once again, I affirm that this article is an exploration about the values of KHD'scritical educationin accordance with accounting educationcontext. Thus, it is very possible for readers to find a new valuesof education in the context of research that you are doing.

As I mentioned at the beginning of this article that I limit the discussion to the scope ofrealityaccounting education disclosureand exploring the meaning of KHD'scritical educationvalues. Actually, this valuesare‘material’ to formulate the concept of accounting education purposes in accordance with values and identity of Indonesian people. Therefore, the values that I have been foundin this article will be continued into several indicators as an analytical tool in formulating the concept of accounting education purposes.

Since I have been writing this article, I had intention to make this article as a way for goodness. *Yes*, as a servant of Allah (*Abdullah*), it wasproperly that we left traces of kindness to realize the better of Islamic civilization. I choose the way of goodness through accounting education as a ‘small boat’ which will sail on His scienceocean. I hope that we are included people who are blessed as a ‘pedestrian’ in the way of His goodness. *Amin yaa robbal'alamin..Wallahu'alam bishawab*

Akhirul kalam, I borrowed a statement of Gamal Albinsaid¹⁴, where I was read his writings in theSriwijaya in-flight magazine, issue 37/March 2014 p. 48 below.

“Please continue to be a pedestrian in the streets of goodness,
Because the goodness is God's way..”

¹⁴Gamal Albinsaid is a young doctor graduated from Faculty of Medicine, University of Brawijaya who has initiated the clinical system ofrubbish insurance premiums in Malang. His achievement for Indonesia when was awarded “The Prince of Wales Young Entrepreneur Sustainability” of Prince Charles on Friday, January 31, 2014 in UK.

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