Politico-Business Regime and the Accountancy Profession: the Indonesian Accountancy Profession under the New Order (1967-1998)

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Abstract

The aim of this paper is to describe the development of the Indonesian accounting profession during the New Order regime. Using Robert Cox's concept of historical structure, the New Order is explained as a particular set of material, ideological and institutional factors imposing a framework of social actions in the professional dynamics. By tracing significant issues in Indonesia's professional development during the regime's rule, the paper argues that the dynamics of the profession is best understood within the aforementioned socio-political context imposed by the regime. The paper shows that the regime's politico-business nature, which is a melting pot of political and economic power of Indonesia's domestic capitalist class, has largely became an obstacle for attempts by the representatives of global capital interest to "modernize" the accountancy profession.

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1. Introduction

The influence of the state on the dynamics of the accountancy profession is well documented. In the context of advance capitalist countries, the mode of the professional regulation arrangement ranges on the spectrum of *associationism* and corporatist models (Puxty et al., 1987). In the corporatist mode, the state often heavily intervenes in the professional regulation in achieving its socio-political objectives. In the *associationism* model, the profession has relatively greater degree of independence from the state in the form of self-regulation. In the context of post-colonized society with undeveloped capitalist political economy such as in Indonesia, the development and dynamics of the profession is better understood by looking into the dynamics of the more fundamental structural factors. In particular, attention should be paid on the interaction between the expanding power of global capitalism and any social, political and economic structure existing in Indonesia. It has been argued that the accountancy profession emerged in Indonesia as part of the country's inclination towards western capitalism in the early years of its Independence (1950-1955) (see Irmawan, 2010; Irmawan et al., 2008). However, the Westernization of the profession stagnated between 1957 and 1967 as the Indonesian rulers were inclined towards socialism amidst the rise of the Soviet Union as an alternative ideological, institutional and material force during the neo-colonial era (see Irmawan et al., 2008).

Using Robert Cox's concept of historical structure (Cox, 1981, 1987, 1996) as the analytical tool, this paper analyses the period in the history of the Indonesian accountancy profession under the New Order political regime that took power in 1967 and governed Indonesia for 30 years. Unlike the tumultuous period of the 1950s and 1960s, this period enjoyed political stability and economic growth under the leadership of Suharto, Indonesia's second president and the founder of the New Order. Despite the economic growth and political stability brought about by the New Order regime following its good relationship with Western powers, the profession did not develop as might be expected. Possible factors contributing to the slowdown in the Westernization of the profession are discussed in the paper.

The remainder of the paper is presented as follows. The next section describes the theoretical framework used in this paper. Section 3 follows with a description of the central features and major actors of the New Order as a particular configuration of material power, ideas and institutions. The description is required in order to set the context for understanding major events in the development of the Indonesian accountancy profession during the New Order era. The section will show how opposing ideologies within the otherwise dominant structure impacted on the various strategies of economic management throughout the New Order's rule. Sections 4, 5 and 6 describe the development of the accountancy profession in relation to changes in the aforementioned economic development strategies. The summary and conclusion section end the paper.

2. Theoretical framework: the concept of historical structure

Extending the concept of historical structure by Robert Cox[1] (1981, 1987, 1996) may help in understanding the structural changes in the accountancy profession of a country in a given period within the wider context of its political economic structure. A historical structure, according to Cox, is the result of the interactions of three forces: material capabilities, institutions and ideas within a particular time and place. Material power is the dynamic form of technological and organizational

[1] Robert Cox (1926 - present) is a Canadian scholar in International Relations and International Political Economy (IPE). He is known as one of the pioneer scholars who adopted critical theory in the field of International Relations. He is also regarded as the founder of modern-day IPE (Cox and Schechter, 2002, p.2).

capabilities and the accumulated form of natural resources, stock of equipment and wealth. Prevailing ideology dictates the shared notions of the nature of social relations which perpetuate habits and expectations of behaviour (inter-subjective meanings) and perceptions on fundamental social values (collective images of social order) which vary across different groups of people (Cox, 1996, p.99). Finally, the notion of institutions represents a "means of maintaining, stabilising and perpetuating a particular (social) order" (p.99).

In each of these levels at any given period in history, the social order consists of a hegemonic structure and one or more alternative structures. A hegemonic or dominant structure is a combination of material power relations, ideological prevalence and institutional arrangement that generally dictates how society works. Alternative structures, on the other hand, exist either as potency or a rival set of ideology, material and institutions. According to Cox, the combination of dominant and alternative structures (or "limited totality") is applicable at all levels of human activities: social forces, form of state and world order. In the Cold War era, for example, the Eastern bloc is a rivalling structure to the Western bloc (and vice versa) since the two structures had relatively equal influence on the stability of the world order during that era. Today, the West (more particularly the US) can be said to be the dominant structure at the world order level while other models of social order such as that of China and the Islamic World exist as potential structures.

The theory thus can help to explain the development of the profession within its contextual background. By recognizing a country's structure of social forces and form of state, one can identify and infer the primary interest and influence on the profession. The corporatist – *associationism* spectrum of mode of regulation across the advanced capitalist countries as described by Puxty et al. (1987) corresponds to the form of state of the profession. In addition, the theory also provides a more fruitful explanation of the dynamics of the profession across ex-colonized societies. It incorporates cross-country influence especially that of stronger countries on weaker countries. Based on this argument, the historical structure of the New Order is presented in Figure 1.

Figure 1: Summary of theoretical framework

Historical structure	Human activities (New Order era)		
	Social forces	State form	World order
Material capabilities	Indonesian-Chinese or "*peranakan*" vs. *pribumi* conglomerates Politico-business bureaucrats	Natural resources vs foreign debts	US Soviet superpower
Ideas	Pancasila (Five principles) Islam Ekonomi kerakyatan (grass-root economy)	Unitary Federal Separatism Islamic state	Liberal capitalism Communism
Institutions	New Order regime Underground networks	Pseudo-/authoritarian democracy Patrimonial bureaucracy	NATO Warsaw Pact
Professional development	Professional issues and dynamics depend on the state's relative autonomy in pursuing its socio-politico-economic objectives.		

We contend that the Indonesian accountancy professional issues and dynamics are dependent on the relative autonomy of the New Order government in choosing its political economic strategies. However, this study also adheres to the notion that the historical development of the accountancy profession is influenced by how far such strategies is influenced by the rivalling social structures existing during the period in question. Such rivalling structure may exist at any of these levels i.e. social forces, the state and the world order. At the social forces level, there is the division between the local and global economic forces as well as the local division between the business interests of the *peranakan (Indonesian Chinese)* and the *pribumi* (indigenous). The division is mirrored in the contending development ideology. While the regime put economic wealth above political freedom, it was equally receptive towards both open and close economic strategies. The interactions of these different social forces and ideologies resulted in a constant swing of economic policies between corporatist nationalism and open economy. This in turn shaped the direction of the development of the profession (corporatist versus *associationism* mode of regulation), the speed of development of the infrastructure and the issues related to local and foreign accountants.

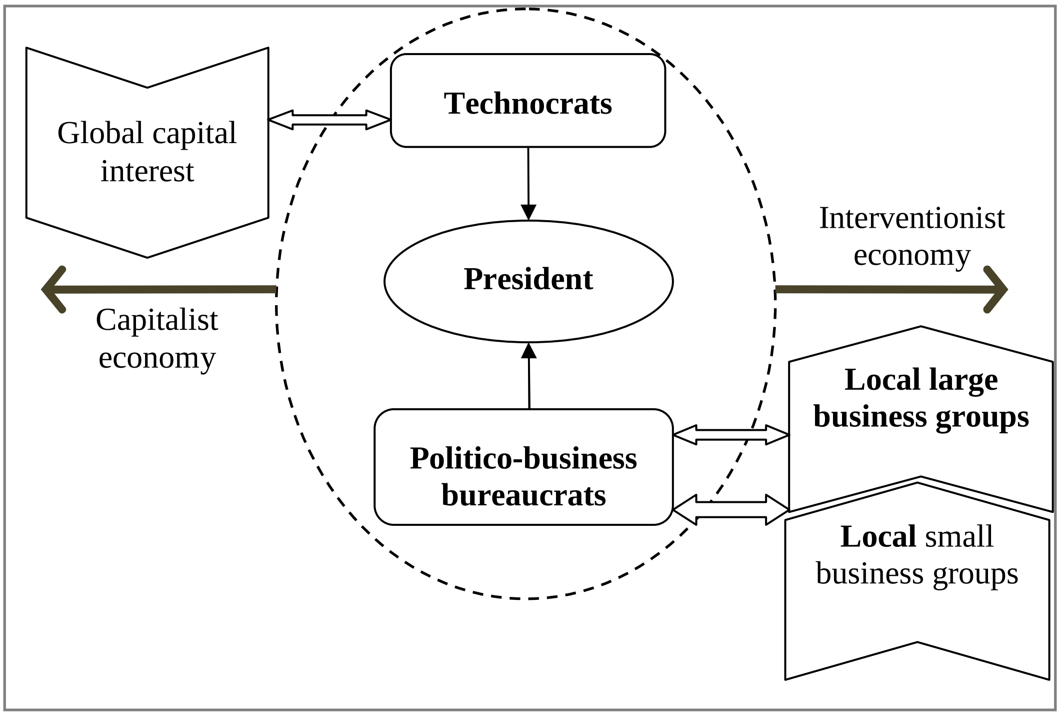
The empirics of this paper are drawn by tracing documents providing significant issues and milestones in the history of the profession during the New Order era. Documents were obtained from the Indonesian Ministry of Finance and during data collection stage. Since the Ministry is the regulator of the profession, this meant that documents from other institutional agents vital in the development of the profession (i.e. the World Bank, the Asian Development Bank (ADB), the professional associations as well as other related pressure groups) were also available. Other sources of documents include the University of Indonesia, the Indonesian Institute of Accountants, the Indonesian National Library and the internet.

The analysis is conducted in the following steps. First, the theoretical framework requires the recognition of Indonesia's politico-economic configurations (as well as the global and local factors influencing them) during the New Order. Following this step, the major events in the history of the profession are identified by reviewing the documents. Finally, these events are linked back to the wider social and political context of the corresponding period to provide a contextual narrative of the profession. In this step, the globalization theory and Cox historical structure help the analysis by identifying the social and politico-economic factors that may have influenced the direction of the development of the profession. This step requires analysing documents that may provide explanation as to why a particular event took place (such as statutory regulations on the profession and documentation of any accountancy project) as well as documents that provide information on the country's politico economic system such as tax and business laws and regulations.

3. Indonesia under the New Order regime (1967-1998): the historical structure of a politico-business regime

The New Order was established as a Western-backed political regime during the transition of power in 1965-1967. President Suharto was the pivotal point in the regime's social and economic policies. Over the years, a circle of power grew immediately around the president (Cassing, 2000) and there were two camps of politicians and bureaucrats within this high political rank: the technocrats and the politico-business bureaucrats. Both groups had different and conflicting views on how the country's economy should be administered. When the technocrats had more say in the inner circle, then the country would swing towards an open market economy and when the politico-business camp had more say in the inner circle, then they would bring the country towards a protective and interventionist model of economy. This opposing tendency of the two camps to a large extent reflects the opposing interests of the international capitalists and the local conglomerates respectively. Figure 1 depicts this intricate relationship between the major actors of the New Order.

Figure 2: The New Order's competing socio-historical structure



The following sections further explain the dynamics in the New Order regime, as illustrated in the figure, using the historical structure concept. The institutional arrangements, prevailing ideologies and material capabilities of the New Order are presented in the following sections.

3.1. The institution: patrimonial bureaucracy

President Suharto is the central and dominant figure in the New Order hierarchy. He is the founder of the regime and over his 32 years reign, he held central power and was irreplaceable[2]. This may be attributed to his success in eliminating the political rivalry at all levels, receiving full military support (as he himself was the Army general) as well as gaining loyalty from his own Javanese ethnic group (this is Indonesia's major ethnic group, accounting for around 45% of population) who, as part of their cultural belief, treats state officials as royal nobility (see e.g. Wahyudi, 2005). Over the years, such centrality led to unavoidable consequences: Suharto became the nucleus of an exclusive power circle of political elite, comprising the people closest to him. As the regime grew stronger so did the centrality of this circle of power resulting in all major government policies being determined by this inner circle of power. Virtually all strategic policies and decisions had to go through consultations with the President and after obtaining his blessings, these decisions would go ahead unchallenged and will be implemented almost at all costs (Cassing, 2000).

Other state institutions such as the DPR (*Dewan Perwakilan Rakyat*, literally People's Representative Assembly, the parliament) were made powerless as many of their members were either elected through an undemocratic election system or appointed by the President himself. Elections were superficial as Golkar, the regime's political vehicle, unfairly mobilise votes through bureaucratic channels all the way down to village official level while DPR members also came from military officers appointed by Suharto himself (e.g. Tomsa, 2008).

[2] According to the 1945 constitution, which was reverently adopted by the New Order regime, the president as head of government already held a strong and powerful position in the Indonesian political system.

3.2. The New Order ideology: absolute political authority for development

From the outset, the New Order rule seemed to have combined successfully political stability and economic growth over its 32 years of power. A closer scrutiny reveals that the regime's developmental ideology rested on the notion that political and social freedom should be sacrificed in pursuit of economic growth. Suharto eliminated rivalling political ideologies through various mechanisms including issuing legislations that made the state ideology (*Pancasila* or the Five Principles) to be the only permitted political ideology of any political or public movements; restricting and silencing oppositional activities through military and policing operations; and controlling ideological diversities and political aspirations through amalgamation of various political parties[3] and the establishment of government-controlled NGOs. In effect, the regime successfully oppressed other political ideologies such as communism, *marhaenism* and particularly Islam, which is a major socio-political force in the Indonesian context.

Inside the regime itself, however, there was competition between two camps of economic development ideologies. There were politico-business bureaucrats i.e. politicians and state officials who were inclined towards nationalist economic policies. They believed that the state should protect the interests of domestic business and prevent foreign business' expansion and domination. They manifested their economic development agenda through their advocacy of economic protectionism and interventionism.[4] The technocrats, on the other hand, wanted Indonesian economy to be built through an open and market-oriented policy regime. The emergence of this group can be traced back to the early 1950s when Indonesia turned to the US for help in educating the country's potential leaders (see e.g. Ransom, 1975 and Irmawan et al., 2009). One project that stood out in particular was the cooperation between the University of Indonesia and the University of California in Berkeley, which caused the group to be nicknamed the "Berkeley Mafia".[5] During the early years of the New Order, many of these technocrats held some of the most strategic and important positions in the regime's government. They argued that the government should keep its involvement and intervention in the country's business and economic spheres to a minimum level. In addition, most of the policies that this group advocates tend to be outward-looking as they are deemed the best way to achieve integration with the global economy.[6]

3.3. The material power relations: the politico-business bureaucrats social class

[3] In the first election during the New Order regime in 1971, ten political parties participated in the election. Suharto amalgamated the political parties by both reducing and limiting the number of political parties to just three in the 1977 general elections. All parties with an Islamic background were fused into the United Development Party, while nationalist parties were merged into the Indonesian Democratic Party (e.g. Mujani, 2008). The ideological oppression impacted the social and economic life of Indonesians. Islamic ideology and its manifestations had been subdued from the nation's political and economic agenda during the New Order and were only resurrected in the early 1990s when Suharto (an '*abangan*', a term for Indonesian Muslims who adhere less strictly to Islam and often mix Javanese culture in their practice) approved the formation of *Ikatan Cendekiawan Muslim Indonesia* (the Indonesian Association of Muslim Intellectuals) under the leadership of B.J. Habibie, the then Minister for Research and Technology.

[4] The term generally refers to the involvement of the government in the economy by influencing the working of the market through regulations and/or subsidies.

[5] The cooperation was mainly in economic studies where students such as Widjojo Nitisastro, Ali Wardhana, Radius Prawiro and JB Sumarlin from the University of Indonesia were sent to study economics in the US (e.g. Kahin, 1989; Borsuk, 1999). When the New Order took control of the country with the support of the US, it was not surprising to find the Berkeley-educated students being the preferred choice as economic policy makers.

[6] For instance, the Finance Minister was Ali Wardhana, Minister for Trade and Industry was Sumitro Djojohadikusumo, the Coordinating Minister for Economic Affairs and Head of Bappenas (National Development Planning Agency) was Widjojo Nitisastro, and Radius Prawiro was the governor for the central bank (Kepustakaan Presiden-presiden Indonesia (Library of the Indonesian Presidents), 2009).

During the power transition between 1965 and 1966, Indonesia was a nation on the brink of economic breakdown. The calamity was inherited from the political and economic choices made during the last years of Sukarno's Old Order administration. At the time of Sukarno's politics of confrontation, most of the country's population had very little wealth, low purchasing power while the inflation rate reached the figure of nearly 600%. The poor economic conditions were successfully overturned by Suharto.[7]

Blessed with oil, tropical climate and other natural resources, Indonesia under the New Order developed into a society in which political power consolidate with economic power amidst the influence of two competing superpowers. The bureaucrats and domestic capitalist class became the most powerful social forces with enormous economic resources. Of central importance is the link between those business groups, particularly the conglomerates, with the New Order's political elites. The link between the conglomerates and the political elites is apparent through the direct association (either familial, friendship, or institutional) of the conglomerates with the political elites. President Suharto himself became the model of this politico-business coalition. His cronies include the most powerful conglomerates (both *peranakan* and *pribumi*) in Indonesia while members of his family owned a plethora of profitable businesses with *peranakan* conglomerates (e.g. Rosser (2002)).

Global capitalist class' interests did interfere during Suharto's era but they never surfaced as a direct social force. When Suharto took charge, global capital entered the country through two channels. First, foreign companies obtained profitable contracts in certain sectors, most notably in oil and mining[8]. The second channel was through inter-governmental organizations in the form of debts and financial aid.[9] Figure 3 shows the flow of foreign money into Indonesia in the form of both debts and direct investment during the New Order era.

Figure 3: Foreign debts and investment in Indonesia (1970-1997)

Year	Total external debt	FDI, net inflows

[7] Over the next 32 years, the New Order was able to maintain political stability and good economic performance. By 1997, Indonesia's GDP had grown to a staggering Rp1,525 billion, representing an increase of more than 7 times its size in 1967. In just over 30 years, the New Order had increased the GDP per capita figure by more than 4 times from Rp1.6 million per capita in 1967 to Rp7.2 million in 1997 (see e.g. Hill, 1996 and van der Eng, 2005). This remarkable development has caused the country to be regarded as one of the "Asian Miracles" in terms of economic achievement, as commented on by the World Bank:

"Indonesia has been remarkably successful in achieving its development objectives over the past twenty-five years: income per capita has risen from US$50 in 1967 to USS650 today; poverty has been reduced from 60% to an estimated 15%; life expectancy at birth has increased by 20 years (almost 50%); and with the achievement of universal primary education, adult illiteracy has been cut by two thirds. While still a low-income country, its tradition of sound economic management, the structural reform in the 1980s and past investments in human resources and infrastructure have laid the foundation for continued progress in the decades ahead" (The World Bank, 1994a p. xi).

[8] Shortly after the installment of Suharto, a conference titled "To Aid in the Rebuilding of a Nation" was held between Suharto's team (mostly the "Berkeley Mafia") and the world's most powerful capitalists (Pilger, 2003). The three-day conference held in Geneva was sponsored by Time-Life Corporation and "all the corporate giants of the West were represented: the major oil companies and banks, General Motors, Imperial Chemical Industries, British Leyland, British-American Tobacco, American Express, Siemens, Goodyear, the International Paper Corporation, US Steel" (Pilger, 2003 p.39). Another prime example was the US's Freeport Mc-Moran which obtained a gold mining contract at Erstberg, Papua Island, dubbed as the world's second largest gold deposit.

[9] As soon as the New Order came into power in 1967, Indonesia re-joined the IMF and pleaded for its help in restoring the country's decaying economy and a special group called the Inter-Governmental Group on Indonesia (IGGI) was formed. IGGI was initially founded as the coordinating forum for Indonesia's creditors comprising countries such as Australia, Austria, Belgium, Canada, France, Germany, Italy, Japan, Holland, New Zealand, Spain, Switzerland, England and the US (other countries such as Denmark, Finland and Ireland joined the group later). Similarly, the World Bank also made a comeback to the country under the new regime. Thus, the economic success of the New Order could not be detached from the strong influx of foreign support from the Western countries through IGGI and international organizations such as the World Bank.

	Value (current US$ million)	Change (%)	Value (current US$ million)	Change (%)
1970	4,528.07	-	145.38	
75	11,497.81	153.92	1,292.06	788.75
80	20,937.70	82.10	300.09	-76.77
85	36,715.22	75.35	310.00	3.30
90	69,871.53	90.31	1,093.00	252.58
95	124,398.32	78.04	4,346.00	297.62
96	128,936.70	3.65	6,194.00	42.52
97	136,272.59	5.69	4,677.00	-24.49

Adapted from The World Bank (World Development Indicators Online), 2008

From the above discussion, the New Order regime is clearly a limited totality in this particular period of history of Indonesia. Despite a seemingly successful political hegemony, alternative/rivalling structures did exist both outside and inside the regime. The New Order's pragmatic dualism in its economic management (i.e. openness to Western power as well as accommodating coalitions with the domestic conglomerates) had constantly swayed the New Order's economic development ideologies along the spectrum of open and interventionism economic policy. Throughout the New Order's era, the country experienced economic policies that bear the reflection of economic nationalism, populism, predatory behaviour and liberalism, all in different intensities at different points in time (Robison, 1997, Cassing, 2000; Rosser, 2002).

As mentioned earlier, the historical structure of a society provides the framework of action for individuals and groups within the given society. The nature and dynamics of the profession certainly was no exception. The constant swing in economic policies between interventionism and liberalism under the New Order had directly affected the profession, especially in terms of the development of its professional infrastructures. Indirectly, the political culture influenced the structural arrangement of the profession and its relationship with the state.

Following the fluctuation in the New Order's political economy, a common periodisation of its economic history is into three major periods (see e.g. Hill, 1996; Soesastro, 1999)[10] which has implications on the periodisation of the history of the profession. Based on the changes in the infrastructure and statutory regulations of the profession, the history of the profession can be classified into three sub-periods: the zealous period, the dormant period and the revival period. Using secondary documents[11], major events in the development of the profession as well as the context surrounding the events are identified and used as the basis in summarising the primary themes of the development.

The next section presents the discussion of the New Order to give contextual background to fully understand the development of the profession. The profession experienced a new excitement period

[10]These are the stabilization and recovery (ca 1967- 1973), oil boom (ca 1973 – 1986) and post-oil boom (1987–1996). Some observers such as Hill (1996) and Rosser (2002) further divided the post-oil boom era into two periods: the "adjustment to lower oil prices" or retrenchment period (ca 1983–1986) and the economic liberalization period (ca 1987–1996).

[11] These documents include, among others, confidential correspondence (e.g. letters and internal memos of the professional regulatory institution), official documents (e.g. minutes of meeting and internal drafts of statutory regulations, and confidential evaluation reports), statutory legislations and legal documents (e.g. the Government of Indonesia's loan agreement with the IMF, the World Bank and the ADB), newspaper and magazine articles and previous research in the area. The data were collected between August to December 2007 from the Ministry of Justice and Ministry of Finance as well as other local sources.

following the economic recovery (ca. 1967-1973) and the inclination of the regime to use western financial support and economic openness in the industrialization period (1988-1998). In the dormant period during the oil boom (1974-1988), the increasing influence of the politico-bureaucrats dragged the country towards interventionism, which resulted in the stagnation of the profession. Finally, the liberalization programmes, starting from end of 1988, pushed the profession into a period of rejuvenation.

4. The zealous period (1967–1973)

In this period, the profession started to thrive as the government was inclined towards economic openness while the foreigners (i.e. Western) started to become important forces in society. A fundamental change brought about by the New Order was its inclination towards the Western bloc, which was a stark contrast to Sukarno's hostility towards Western powers and interests (e.g. The US State Department, 2001; Pease, 1996). Due to the turbulent economy inherited from Sukarno's administration, the first period (1967-1971) under the New Order was marked by policies that were aimed at economic stabilization and rehabilitation. Immediately after assuming power, Suharto realized the importance of economic stability in supporting political stability. The first step was to stabilize inflation and ease the burden of foreign debts by controlling inflation through tight monetary and fiscal policies and rehabilitating relationships with foreign sources for the much-needed funds to finance the economy (Hill, 1996). Besides the political support, particularly the US, President Suharto also realized that Western money was the only way to help fuel the economy (see e.g. Memorandum for the US President from Henry A. Kissinger dated 18 July 1969 and Memorandum of conversation between President Suharto of Indonesia - the President of USA - Dr. Kissinger on 21 May 1970).

During these years, the role of the technocrats was vital in implementing Western-oriented economic policies as they had strong affiliations and support from Western countries which were Indonesia's primary donor countries. By 1967, Indonesia immediately reinstated membership in the IMF and undertook structural adjustment actions. These adjustments were largely intended to accommodate the transition towards a market economy especially in providing the legal and institutional framework for business invasion by large (Western) multinational corporations[12]. The enormous influence of Western capitalists in the early years of the New Order is described in Jeffrey Winters'[13] comments on the aforementioned Geneva conference:

> "… the Indonesian economy was carved up, sector by sector. 'This was done in the most spectacular way' … . 'They divided up into five different sections: mining in one room, services in another, light industry in another, banking and finance in another; and what Chase Mahattan did was sit with a delegation and hammer out policies that were going to be acceptable to them and other investors. You had these big corporate people going around the table, saying this is what we need: this, this, and this, and they basically designed the legal infrastructure for investment in Indonesia. I've never heard of a situation like this where global capital sits down with the representatives of a supposedly sovereign state and hammers out the conditions of their own entry into that country" (quoted in Pilger, 2003 p.41).

In short, the economic policy during the early years of the New Order was very accommodative to the flows of foreign capital, be it in the form of direct investment or debts. With the New Order's western-oriented political view and the flow of foreign money, there were no more major

[12] It was in that year that Act number 1/1967 regarding Foreign Investment was enacted. Interestingly, in the same year, Freeport-McMoran, a US mining corporation, was granted a 30-year concession of copper and gold mining in the Erstberg District in Irian Barat (West Papua) province, which was considered the largest above-ground gold and copper depository (Cloos, 1997). Freeport "became the first foreign company to sign a contract with the new government in Jakarta and became a significant economic and political actor in Indonesia" (Leith, 2002 p.3).

[13] He is a professor at the North-western University in Chicago and an expert on Indonesian politics.

ideological and political obstacles in building a profession akin to the Western model. The accountancy profession thus entered a zealous period during the early years of the New Order.

4.1. Growth of the profession and the professional infrastructure

Indonesia's revived economic openness and the flow of foreign money triggered a boom in the accounting market and an increase in the demand for accountants which eventually changed the dynamics of the profession. For instance, Pertamina, despite being a state enterprise, had to use the services of professional accountants as part of fulfilling the accountability requirements since it received much foreign financial assistance. By the end of the 1970s, a series of tax regulations also created demand for accounting services. *Keppres* number 52 year 1976, which set up the institutional framework for an Indonesian capital market and the introduction of incentives (such as tax exemption for asset revaluation surplus) to encourage companies to list their shares in the capital market, created demand for accounting services.

The government itself had become another source of demand for the professional services of accountants. *Instruksi Presiden Republik Indonesia* (hereafter *Inpres*; Instruction of the President of Republik Indonesia) number 6 year 1979 dated 27 March 1979 regarding Taxation Policy, created demand for accounting services. The *Inpres* offered tax incentives to companies that prepared their financial statements according to the generally accepted accounting principles (Article 3.3) and had these statements audited by public accountants and having an unqualified audit opinion (Article 3.4). For instance, the tax for providing a clean audited report for a company with a total profit of Rp100 million was 25% compared to 45% for non-audited financial statements. A Finance Minister decree (KMK number 108/KMK.07/1979) broadened the incentive package and to be entitled for the incentive, companies had to provide the calculation of the qualification's impact on profit or loss (Article 3.4). In addition, to improve audit quality, the decree required auditors to comply with their professional standards as well as introduced statutory sanctions for noncompliance in the form of either revocation or suspension of licenses to practice (Article 6). Another regulation included in this package was KMK number 109/KMK.04/1979, which required companies to publish financial statements and allowed companies to revalue their assets.[14]

Increasing demand for services of professional accountants triggered the development of professional infrastructure, especially the size of the profession i.e. the number of accountants. The accountancy profession at the time of independence was simply non-existent as there was only one qualified accountant in 1945. The number increased to 10 accountants by the early 1950s and 30 accountants in 1960. Having established a full administration following independence in 1949, the government introduced training and education programmes in its attempts to fulfil the need for low- and middle-level accountants.[15] Shortly after the change of power to the New Order, under *Keputusan Bersama* (Joint Decree) between the Finance Minister and the Culture & Education Minister number Kep.302/Menkeu/1967 (3/PT/1967) on 15 December 1967, all the institutions were merged and became *Institut Ilmu Keuangan* (Institute for Financial Sciences, hereafter IIK).[16]

[14]The result of this revaluation was not taxable, provided that the company agreed to submit a written declaration stating that it would keep proper records and publish reports of its accounts according to corporate tax laws; submit balance sheets from the last three years; and submit the adjusted financial statements as of 1 January 1979.

[15]A number of institutions were set up for this purpose: *Kursus Djabatan Adjun Akuntan* (Course for Accounting Technician) in 1953; *Kursus Djabatan Pembantu Akuntan* (Course for Assistant Accountant) in 1959; and *Sekolah Tinggi Ilmu Keuangan Negara* (College of Public Finance) in 1959, *Akademi Djabatan Adjun Akuntan* (Academy for Accounting Technician), which later became the State Academy for Accounting Technician in 1960. All graduates from these institutions worked for the government, mainly in the Ministry of Finance (MoF).

[16] The position of IIK was further strengthened by *Keppres: Keputusan Presiden Republik Indonesia* (Decree of President of Republik Indonesia) number 167 year 1968, as it operated under the MoF as a university offering degrees in public finance. Its establishment was welcomed in the accounting academic community; in particular, by the Faculty of Economy at University of Indonesia (BPPK 2007).

Through some ministerial decrees[17], IIK was transformed into Sekolah Tinggi Akuntansi Negara (State College of Accountancy, hereafter STAN) which would carry out training and education in accounting[18]. Due to their operation as a higher education institution, they later played an important role in the profession in Indonesia as accountants who work in government institutions constitute a major proportion of the IAI memberships (IAI, 2007).

In terms of professional association, the Indonesian Institute of Accountants (IAI) was also more active and gained more support from the Government during this period. Since its establishment in 1957, the IAI had only managed to hold one national congress in 1963. One of the outcomes from the congress was the election of Dr. Radius Prawiro as Chairman of IAI, a position he held until 1986, besides his other high-ranking positions in the New Order administration[19]. The IAI's position strengthened in the late 1969 when the Finance Minister imposed IAI membership as part of the requirement to obtain a license to practice as a public accountant (The Asian Development Bank, 2003)[20].

An important infrastructure landmark for the profession in 1973 was the issuance of the first Indonesian accounting and auditing standards, which was a combined effort of the government and the IAI. In August 1972, the Executive Chair of the Agency for Supervision of Financial and Capital Market formed "the Task Force for Compilation of Materials and Structure of Generally Accepted Accounting Principles and Generally Accepted Auditing Standards" and *Yayasan Pengembangan Ilmu Akuntansi Indonesia* (YPIAI; the Foundation for the Development of Indonesian Accountancy). On the other hand, IAI formed *Komite Norma Pemeriksaan Akuntan* (Committee for Examination of Accountants) in 1973. Both committees were the mastermind of *Prinsip Akuntansi Indonesia* (PAI, Indonesian Accounting Principles) and *Norma Pemeriksaan Akuntan* (NPA, Accountants Examination), the first Indonesian accounting and auditing standards respectively. The 1974 PAI was compiled based on Paul Grady's "Inventory of Generally Accepted Accounting Principles for Business Enterprises" in Accounting Research Study number 7, which was published by AICPA in 1965. Clearly, the two standards were issued as part of the government's efforts in preparing the capital market rather than emerging from the need of the Indonesian business complexity. The fact that the standards were heavily influenced by the US accounting and auditing standards strengthened the conclusion and indicated the influence of the US accounting thoughts on the development of the professional infrastructure.

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[17]IIK was re-evaluated in 1974 following the issuance of Keppres: Keputusan Presiden Republik Indonesia (Decree of President of Republik Indonesia) number 44 year 1974 which established the reorganization of state ministries and their implemental regulations, in particular KMK: Keputusan Menteri Keuangan Republik Indonesia (Decree of the Finance Minister of Republik Indonesia) number 405/MK/6/4/1975 regarding the Structure and Role Descriptions of Organizations with the MoF. The decree established the Finance and Education Training Agency (FETA) to carry out all training and education responsibilities within the MoF. One of FETA's sub-units was STAN.

[18] STAN was later endorsed as an accounting education institution by the Ministry of Education and Culture through Keputusan Menteri Pendidikan dan Kebudayaan Republik Indonesia (The Indonesian Education & Culture Minister Decree) number 13495/MPK/75 on 17 March 1975.

[19] These include the positions of Deputy to the Minister of State Audit Office and Deputy to the Minister for Central Bank Affairs (1965), Governor of Bank Negara Indonesia, later Bank Indonesia (1966-1973), IMF Governor and Vice Governor of Asian Development Bank for Indonesia (1967-1971), Member of Presidential Economic Advisory (1968), Chair of Board of Governor of IBRD (1971-1973), Minister of Trade (1973-1978, 1978-1983), and finally as Finance Minister from 1983 until 1988 (*Ensiklopedi Tokoh Indonesia (Encyclopedy of Indonesian Public Figures), 2005;* PDAT, 2009).

[20] It is necessary to explain briefly the two major groups of accountants in Indonesia: public-practicing and non-public-practicing accountants. Non-practicing accountants are those who work as management accountants, government accountants and academics. Public-practicing accountants, popularly known as "public accountants", are those who hold the licence to open a public accounting firm and offer financial audit services. To obtain a license as a public accountant, one must, among other requirements, be registered at the Ministry of Finance and pass the Indonesian CPA examinations. It is also necessary to emphasize that the Government does not allow public accountants or public accounting firms to offer only accounting services.

Another significant development in the professional infrastructure was the formation of the public accountants' section of the IAI in 1977. Despite the relatively small number of membership of the IAI, public accountants lobbied Radius Prawiro with the suggestion that they should form their own association but not separate from the IAI. This new association was named IAI Seksi Akuntan Publik (IAI Public Accountants Section), with Theodorus Tuannakotta as the first Chairman. IAI continues to be an umbrella organization hosting different sections of its members based on the type of employment. Besides the public accountants section, there are also an educator accountants section, a management accountants section and a government accountants section.

In short, the period during the late 1960s and 1970s was an exciting and optimistic episode for the Indonesian accountancy profession. Accounting markets blossomed as demand for accounting and auditing services significantly increased as a result of flows of foreign investment into the country. The profession developed close ties with the state and the adoption of the American accounting system was made possible. Several regulations were passed by the government to ease local accountants' resentment amidst its commitment to a market-oriented economy. However, the dramatic change in the country's socio-political and economic landscape in the following period had significant effect on the profession.

4.2. Issues related to local versus foreign accountants and accounting firms

In keeping with the enactment of the investment act packages (Act number 1 year 1967), Indonesia opened her door to foreign accountants. Frans Seda, the then Finance Minister, gave permission to several foreign accounting firms to cooperate with Indonesian public accounting firms. This was followed by a wave of cooperation between foreign and Indonesian accounting firms as shown in Figure 4. The opening of the accounting market for foreign accountants and accounting firms was a clear overturn of the previous policy in 1957-1958 of expelling foreign accountants. The number of foreign accountants increased from 4 in 1968 to 94 in 1976, an increase of almost 2400% (Sapiie, 1980). The influx of foreign accountants to the country was an obvious consequence of opening up the economy (see e.g. Tuanakotta, 2007).

Figure 4: Foreign-local accounting firm cooperation in the early 1970s

Year	Foreign accounting firm	Local accounting firm
1971	Arthur Young	Santoso Harsokusumo
	Sycip, Gorres &Velayo	Utomo Jososudirjo
	Torquand Young	Go Si Tiem
	Price Waterhouse	Tan EngOen
	Peat Marwick Mitchell & Co	Soedjendro& Co
	Coopers & Lybrand	Suparman
1972	Peat Marwick Mitchell & Co	Sudomo& Co
1974	Klijnveld, Kraijenhof& Co	Go Si Tiem
1975	Touche Ross International	HendraDarmawan& Co

Adapted from Gade, 2002; Tuanakotta, 2007

However, soon enough, there was growing discontent amongst local accountants who saw the mode of partnership cooperation as giving too much opportunity to expatriate accountants, as described by one of the practitioners in that era:

> "... the discontentment of local accountants who had foreign cooperation may come to surface when their foreign counterparts replace local partner or when they left the partnership. The discontentment of local accountants who do not have foreign cooperation develops because they experience "unhealthy competition" and are losing key clients with whom they have had long relationship. In their perceptions, unhealthy competition occurs because: Foreign partners are too aggressive whereas local partners only act as puppets (the *front man* or *stroman*). In practice, there is no equality [between partners].Joint partnership firms violate the statutory rules [set up as conditions for their operations]. There are doubts that foreign accountants are actually passing their knowledge and expertise to local accountants, as indicated in the persistent occurrences of staff and partner hijacking between firms (which would not have happened if training and education [from foreign partners] programs run well). There is neither time limit nor quota in numbers of foreign accountants that can work in the country." (Tuanakotta, 2007 p.320, words in italics are in original, words in [brackets] are added).

Despite the flow of foreign money and general direction towards the ideals of liberal economy, the government's attitude towards a full Western-like profession was rather mixed. The growing resentment from local accountants caused the government to pass statutory restrictions on foreign cooperation. The then Finance Minister, Ali Wardhana, issued *Keputusan Menteri Keuangan Republik Indonesia* (hereafter KMK; Decree of the Finance Minister of Republik Indonesia) number 76 year 1971 which effectively put an end to joint partnerships (Tuanakotta, 2007) but still allowed correspondence relationships between the Indonesian *Kantor Akuntan* (accounting office) with foreign accounting firms. One of the qualifying requirements for cooperation was the reciprocity principle i.e. a foreign accounting firm from a given country was permitted to operate in Indonesia if an Indonesian accounting firm was permitted to operate directly in that country (Article 2). Joint partnerships were also required to have a minimum number of foreign clients; they are not allowed to audit state-owned enterprises; and are not allowed to demand foreign investment facilities (such as tax holidays). In addition, foreign accountants were required to fulfil the requirements set in Act number 34/1954 and had to contribute to the development of the profession in Indonesia. All these requirements had made it more difficult to form a joint partnership and it was the reciprocity principle that effectively terminated the joint partnership mode of operation.

The stricter government regulations caused foreign–local co-operations to take less obvious forms. Joint partnerships ceased to exist in legal forms and took a more elusive form of cooperation whereby local accounting firms used their foreign counterpart names without having any foreign accountants involved directly in the day-to-day operations except for advisory roles. This situation further exacerbated resentment amongst local accountants and another regulation, KMK number 1681 year 1976, which imposed further restrictions on the number of foreign accountants contracted, the number of clients and the length of joint partnership, was passed. Despite these efforts, the issue of foreign accountants and accounting firms remained problematic over the remaining period of the New Order era.

5. The dormant period (1974–1988)

In the second period, the profession leaned towards the corporatist mode of regulation as the local capitalist dragged the country towards economic closeness. Having successfully recovered and stabilized the economy, the New Order started to lean towards protectionism and interventionist policies from the mid-1970s. Two important factors contributed to the New Order's change of strategies of economic development. The first factor was the improvement of Indonesia's terms of international trade, coupled with the increase in oil prices (Booth, 1998). Indonesia's oil price climbed from less than US$3 per barrel in 1972 to US$30 in 1981, causing a significant increase in the proportion of oil exports in Indonesia's total export - from 37% in 1970 to 82% in 1982 (Vatikiotis, 1998), causing the country's GDP and income per capita to grow at an average of 7% and 5% respectively. Secondly, public sentiment against foreign interest during the period of the early 1970s could also play important role. Many factions within society still believed and supported the aspiration of the founding fathers (among whom was Sukarno) to make Indonesia a socialist state.[21] Seeing the New Order's open policy as a direct opposition to this idealism, public sentiment against foreign involvement in the economy started to mount in the early 1970s and by the mid-1970s, the protests got stronger and culminated in the "Malari" incident.[22]

The combination of the two factors was the reason for the New Order's reluctance to completely adopt free-market economic policies. Instead, it tried to balance the pressures of international capitalist support and the populist nationalist sentiment (see Vatikiotis, 1998; Rosser, 2002) by continuing to open its economy to foreign investment and also introducing policies that, to some commentators, were directly opposed to the open economic policies introduced in the early years of the New Order regime (Soesastro, 1999). The state was the dominant actor in the country's economy as it established foreign trade and investment barriers to protect local businesses and increase spending and investments in state enterprises formed during Sukarno's era.[23]

The wealth from oil also enabled the flourishing of large domestic business groups mostly from the inner circle of political power (see Section 2.3). By the early 1980s, Indonesia became "a highly regulated and controlled economy, and the role of the government was undoubtedly stronger than at any time since the 1930s" (Booth, 1998 p.320). By the mid-1980s, the domestic business groups had established themselves into a strong coalition with the bureaucrats, exerting considerable pressure towards protectionism and interventionism in many areas of the economy. As a result, according to some commentators, the government had to introduce contradictory measures of reforms during this time. Deregulation and de-bureaucratization, were accompanied by trade and investment restrictions in other areas. Deregulation in the financial sector was not accompanied by prudent measures. Such contradictions had inadvertently benefited the local conglomerates as they provided them with considerable access to public fund through the banking sector (see e.g. Chua, 2008).[24]

The failure in establishing the security exchange market is another indicator of the failure of the Western capitalist model in penetrating Indonesia's economy during this period. Indonesia had attempted to establish a security exchange market since the early period of the New Order (albeit rather reluctantly[25]) with 24 companies listing their shares and 3 companies issuing bonds since the

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[21]The fifth pillar of Pancasila, the country's ideology set up by Indonesia's founding fathers, bears the vision of achieving "social justice to all Indonesian citizens". This is the core foundation of Article 33 of the 1945 Constitution, which dictates that "all areas in the economy which bear crucial importance to the welfare of the Indonesian people must be controlled by the state".

[22]*Malari*, short for "*Lima Belas Januari*" - literally meaning "fifteenth of January" - was a social riot that took place on 15 January 1974. The incident was triggered by anti-foreign-capital protests by students which culminated during the visit of the Japanese Prime Minister to Jakarta from 14 to 17 January 1974.

[23]One such state enterprise is Pertamina, the national oil company, which gained more importance while new state enterprises such as IPTN (*Industri Pesawat Terbang Nusantara* or National Aero-plane Industry) and PAL Indonesia (Indonesian maritime technology developer) were set up under the agency umbrella of *Badan Pengkajian dan Penerapan Teknologi* (the Agency for Assessment and Application of Technology) to encapsulate ambitious state projects in hi-tech industries.

[24]Other writers such as Booth (1998) argued that this was not the case; rather it was only "a symptom of the limitations of the deregulation process" (p. 322).

[25] In addition to the fact that the New Order was closer to Western economic thinking during its early years in power, the government's intention in establishing the security exchange market at the time was to create a channel of distributing wealth across various sections of society (Rosser, 1999) due to increasing social tension during the

early 1970s (Yunus, 1992). However, the development of the capital market came to a halt during the late 1970s and early 1980s due to the increase in government's revenue which led to state intervention in the economy and the rise in importance of domestic conglomerates. As a result, the Indonesian security market never grew and by 1986, it was considered the least developed in the region and perhaps also in all countries adopting a capitalist system (Foo, 1988, Vatikiotis, 1998).

As a result of the swing in the New Order's strategy of economic development, the second decade of the New Order was a period of slow development of the profession. The two major players in the economy i.e. the government and domestic (mostly family-owned) businesses had little interest in accounting and auditing. The government's reluctance to support and develop the accounting profession was because the government did not see the profession as being effective in helping the government to increase its tax revenue. The use of financial reports and audit as a mechanism for stimulating tax revenue as stipulated in the Presidential Instruction number 6/1979, was deemed ineffective. In January 1980, the Director General of Tax reported that only 3.5% of all companies took advantage of the tax incentive package by voluntarily publishing audited financial statements. One possible reason for the small number was that the majority of the companies were family-owned and they would rather negotiate their tax liabilities than publish their financial positions and income. The use of financial reports and independent audit as instruments of tax incentives were finally abandoned in 1984, only five years after its introduction. This was a blow to the accountancy profession as this reduced the market for accountancy services.

Parallel to the shrinking of the market, the development of the professional infrastructure had taken a major setback with the increasing role of the government in regulating the profession. In 1980, the Directorate for Higher Education of the Ministry of Education and Culture issued Decree number 15/1980 regarding *Ujian Negara Akuntansi* or UNA (National Accountancy Examinations). As stated under Act number 34/1954, only accounting graduates from public universities could automatically be registered as accountants in the MoF. Graduates from private universities, on the other hand, had to pass an examination for degree equalization. However, by 1980, a joint committee set up by Act 34/1954 to conduct the examination faced difficulties in fulfilling its responsibility, as the number of private universities was on the increase. Decree number 15/1980 was issued to overcome the problem by establishing UNA, a nation-wide examination system for accountancy. There are two levels of UNA: UNA *dasar* (basic UNA) and UNA *profesi* (professional UNA). To obtain the accountant title (i.e. become a registered accountant), an accounting graduate had to pass both levels of UNA. UNA was therefore a further barrier to the profession because the MoF would later rule that a public accountant license could only be granted to a registered accountant.

Further government involvement in regulating the professional infrastructure was in the entry qualification mechanism. The emergence of accounting frauds gave reasons to the government to doubt the profession's integrity and independence. In 1981, a report by a special committee set up by the MoF (KMK number 302/1981) revealed that the 1979 tax incentive packages had inadvertently lowered tax revenue due to fraudulent financial reports being submitted by companies in their attempt to benefit from the incentives. Shortly after the report, the Government decided to exert more regulatory role over the profession. The President assigned BPKP (*Badan Pengawasan Keuangan dan Pembangunan* or the Financial and Development Supervisory Agency), the government's internal audit office (*Keppres* number 31 year 1983), with the power to perform periodic reviews over public accountants and public accounting firms. In effect, this meant that peer review, a form of professional quality assurance, was taken away from the profession. The two events thus marked a significant leap from the previous period whereby the government's involvement was limited to registering and granting license to practice to accountants.

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mid-1970s (see footnote 30).

These unfavourable changes prompted the profession to react. In October 1982, the IAI held its fourth national congress in which it revises its *Prinsip Akuntansi Indonesia* (PAI) and *Norma Pemeriksaan Akuntan* (NPA). The IAI set up two special task forces for the revision: *Komite Prinsip Akuntansi Indonesia* (KPAI; IAI Committee for Indonesian Accounting Principles) and *Komite Norma Pemeriksaan Akuntan* (KNPA; IAI Committee for Accountant's Examination Norms). With regards to PAI, the committee recommended the inclusion of two specific accounting standards: Accounting for Foreign Currency Transactions and Translations (Statement number 1) and Capitalization of Interest during Construction Period (Statement number 2). Three exposure drafts of NPA supplements were also published by the NPA committee: Communication between Predecessor and Successor Auditor (NPA Supplement number 1); Client Representation Letter (NPA Supplement number 2) and Audit Report on Comparative Financial Statements (NPA Supplement number 3). A year later, these revisions were approved and codified in the 1984 PAI and NPA. Compared to the 1974 version, the 1984 versions of PAI and NPA were more detailed. In fact, practitioners and IAI hailed these revisions as fundamental and comprehensive (IAI, 2008; Nasution, 2003).

There were efforts to develop the profession in the mid-1980s. However, as in the previous period, such efforts surfaced as a reaction to foreign needs. As the oil price plummeted, the government had to turn to foreign money to fuel its economy, prompting it to take some efforts to develop the profession. In 1985, YPIAI was replaced by *Tim Koordinasi Pengembangan Akuntansi* (Coordinating Team for Accountancy Development; CAAD). Its primary mission was "to develop accounting education, the accountancy profession, a set of professional standards and a code of ethics" (Delloitte, Touche Tohmatsu Emerging Markets Ltd, 2000 cited in The Asian Development Bank, 2003 p.50). A year later, a more fundamental transformation shaped the future of the profession. On 26 August 1986, Radius Prawiro (the then Finance Minister) issued KMK number 763/KMK.011/1986 (the 1986 decree) regarding public accountants which strengthened the legal basis for the institutional framework of the profession. The decree endorsed the IAI as "the professional association of accountants recognized by the government" (Article 1 point c) and its membership is a mandatory requirement to apply for a license to practice as a public accountant (Article 4.h). However, the decree also stated that the MoF was to help develop the profession (Article 14) and further reinforced on the responsibility of supervising accounting firms' adherence to rules and regulations as laid out by the BPKP (Article 17).

There were also rules in the 1986 decree that sent mixed messages about the government's position, especially on issues related to the operation of foreign accountants and accounting firms in Indonesia. Article 4.1 stipulated that only Indonesian citizens who resided in Indonesia could obtain the license to practice as a public accountant and open an accounting firm. Furthermore, the decree clearly stated that, "Alien citizens are prohibited to conduct public accountant practice" (Article 6). Interestingly, however, the decree allowed the operation of foreign accounting firms as long as they cooperated with local accounting firms (Article 12). These firms could also hire foreign accountants on the condition that these accountants were required to "... improve accounting technical knowledge and capabilities within the [local] accounting firm" (Article 12.2, word in bracket added). In this regard, the government had maintained its position since the previous decade in terms of protecting the profession from the direct operation of foreign accounting firms.

In the end, the drive towards progress in the profession materialized due to another external pressure. Parallel to its need to find alternative means of fuelling the economy, the government introduced the financial sector and capital markets reforms starting in the late 1988. However, due to the strong coalitions between domestic business interest and the nationalist bureaucrats, the influence seemed to be slow. This impact was summed up by an observer who commented that, "In Indonesia, accounting standards are not well-developed, the number of well-trained accountants is limited, and the accountancy profession is not effectively regulated by itself or by outside parties" (**Gray, 1989 p.6**). The World Bank further commented:

> "The Government of Indonesia has recognized the importance of setting and enforcing standards, and of generally enhancing the quality and reputation of the accounting profession; however its efforts to date appear to have had limited impact. Enterprise financial statements are not yet prepared consistently according to a generally accepted set of accounting standards; and even if audited by local accounting firms, such financial statements often are given limited credibility by investors, lenders and concerned government agencies." (The World Bank, 1994b p. 2)

6. The revival of the profession (1988–1998)

In keeping with structural transformations since 1987, the profession swing back towards the associationism mode and convergence with the international norms as the end of the oil-boom period re-empower foreign forces and ideas into Indonesia. Since the end of 1987, the New Order began industrializing the Indonesian economy. The regime's resistance towards liberalization policies changed as it faced dwindling revenues and escalating debts. It had no choice but to open the country to foreign aids and debts which were accompanied by certain terms and conditions, mostly in the form of prescriptions of economic restructuring and adjustment. The switch towards liberalization also strengthened the position of the technocrats who were appointed in strategic policy-making. They introduced new and more comprehensive liberalization and deregulation in the financial sector and capital markets for the next decade. In 1987-1988, the Government de-bureaucratized the security market exchange regulations through *Pakdes 87* (*Paket Desember* or December Package 1987), *Pakto* 88 (October Package 1988) and *Pakdes* 88 (December Package 1988). The government further strengthened the capital market institution by issuing *Keppres* number 53 year 1990 and later Act number 8 year 1995, both concerning Security Exchange Markets. The restructuring of security exchange market was followed by wider and fundamental restructuring of the financial sector in the early 1990s. Various acts regulating the financial sector introduced during this period include the Insurance Act (Act number 2 Year 1992), the Banking Act (Act number 7 Year 1992) and the Pension Fund Act (Act number 11 Year 1992). On a wider basis, a new Limited Companies Act was also enacted (Act number 1 Year 1995). In many ways, these Acts represented a dramatic and extensive change in Indonesian economic management in the space of less than a decade. Just ten years earlier, the country's commercial code had been labelled as grossly out of date (Foo, 1988), having maintained *Wetboek van Koophande,* the commercial code inherited from the Dutch, since 1847.

The government's efforts to liberalize and industrialize the economy were accompanied by transformations in the profession. Progress took place in virtually every aspect of the profession and there was a change in the government's attitude towards professional autonomy. While the government seemed to withdraw its support for developing an independent and self-regulatory profession during 1978 – 1987, it took steps to build a fully independent accountancy profession from 1988 onwards.

6.1. Economic industrialization and the creation of demand for accountancy

As in the first liberalization era during the early years of the New Order rule, the drives towards institutional reforms of the accountancy profession from the late-1980s until the mid 1990s were largely due to pressure from the World Bank and the ADB, two of the biggest IGGI/CGI[26] creditors

[26] IGGI stands for Intergovernmental Group on Indonesia, a creditor forum for Indonesia set up in 1968. Until early 1992, IGGI was under the leadership of the Netherlands despite its insignificant proportion of debt. It was dismissed on 25 March 1992 with a letter from Radius Prawiro (the then Coordinating Minister for Economy, Monetary and Industry Affairs). The Indonesian Government (particularly Suharto) was annoyed by the Dutch's comments regarding Indonesia's human rights conditions, most notably the comments on the Indonesian Government's treatment of Santa Cruz East Timor protesters in November 1991 (see e.g. Margana, 1992). The Government regarded the Netherland as using debts as political intimidation and thus refused to accept further financial aid from them.

besides Japan (see e.g. Bank Indonesia, 2000; The Library of Congress, 1992). They were critical of the weak status of the accountancy profession in Indonesia as there was "a general absence in Indonesian law of regulations which would require and enforce basic standards of accounting, auditing and reporting, other than for certain financial institutions and listed companies" (The World Bank, 1994b p. 2). Hence, in order to fulfil the open economy and financial liberalization policy, it was important to have a strong professional infrastructure to support the capital market.[27] Various efforts were undertaken by the global institutions as part of their wider agenda of integrating Indonesia into the global economic order through free trade and free flow of capital, and a fully functioning Indonesian capital market was deem as essential for the purpose.

The structural and institutional transformations in the late 1980s and the first half of the 1990s without doubt had a direct impact on the accountancy profession. A capitalistic financial sector and capital markets simply would not be sustainable without the accountancy profession. *Keppress* number 53 year 1990 embedded the legal basis for the accountancy profession as one of "the supporting professions" of the capital market (Article 16). This simply means that the Decree had widened the markets for accounting services. KMK number 1548/KMK.013/1990, consisting of 220 articles, explained in detail the rules and institutional arrangements of the Indonesian capital market. One of the most significant policies was the decision to separate the roles of the capital market operator and regulator, both previously assigned to Bapepam[28]. Many of Bapepam's new functions were supervisory in nature and one of them was to supervise the accountancy profession as it was one of the supporting services for the capital market (Article 1 bullet 65). Accountants who wished to offer their services to publicly listed companies had to register with Bapepam and comply with its rules and regulations in rendering professional services in the capital market. Insurance Act number 2/1992 required all insurance companies to submit the statements of financial position (balance sheet) and profit and loss calculation (Article 16). The Banking Act number 7/1992 stipulated even tighter requirements whereby all banks need to submit audited balance sheets and profit and loss accounts (Article 34) and release these documents to the public (Article 35). In Act number 11/1992, a pension fund had to submit its financial statements as part of an annual operational report (Article 52) and had to have these statements audited by a public accountant every year (Article 14). The 1995 Company Act requirements captured even wider constituents and Article 56 states:

> "Within five (5) months following the annual closing of a company's accounts, the company's board of directors prepares an annual report to be presented to the shareholders general meeting, which should include at least:
>
> a document of "annual calculation" consisting of a balance sheet, a profit loss calculation and accompanying explanatory notes to those documents;
>
> a consolidate balance sheet of all companies in a holding group, in addition to the balance sheet of each member company
>
> a report about the condition, the operation and the result of operation
>
> the main activity(-ies) of the company and any changes that happened within the last accounting year;
>
> details of problems which had impacts on the operation of the company
>
> the names of members of board of directors and commissioners; and

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Since 1992, IGGI creditors (minus the Netherlands) formed the Consultative Group on Indonesia (CGI).

[27]For example, since 1986, ADB launched a Financial Reform Programme in Indonesia to develop domestic capital markets (see e.g. The Asian Development Bank (Operations Evaluation Department), 2008).

[28]Bapepam's name was revised from its original name of *Badan Pelaksana Pasar Modal* (Capital Market Executive Agency) in 1977 to *Badan Pengawas Pasar Modal* (Capital Market Supervisory Agency).

> the amount of salary and other remuneration given to members of the board of directors and commissioners." (Limited Companies Act number 1/1995)

Article 57 makes it obligatory for all members of the board of directors and commissioners to sign the financial statements. The Act also required companies to prepare the financial statements in accordance with *Standar Akuntansi Keuangan* (Financial Accounting Standards) and provide explanations if otherwise (Article 59). Moreover, a financial audit was mandatory if "the company's main business involves raising money from the general public" or if "the company issues debt instrument securities" or if "the company is a public company" (Article 59). This Article also requires the audited financial statements to be accepted by the shareholders in the annual general meeting and be published in two daily national newspapers. All this high-level legislation strengthened the legal basis for the existence of the accountancy profession.

6.2. The need for a global-oriented professional infrastructure

There were significant efforts to consolidate and restructure the accountancy profession's infrastructure in which inter-governmental organizations can be directly involved. On 17 May 1988, the World Bank approved a loan to Indonesia totalling US$113 million specifically to fund an "Accountancy Development Project" meant for "the improvement of accounting practices in both the public and private sectors" (The World Bank, 1988). In achieving its objective, the project provided support and assistance both to the government and the profession (through the Indonesian Institute of Accountants) in developing the professional infrastructure (including technical standards and code of ethics); modernizing and improving the government's accounting and auditing system; and improving the quality of accountancy education and training.

Such substantial funding had effectively boosted the surge towards an Indonesian accounting system and a profession capable of supporting the requirements of the wider restructuring initiatives. Given the World Bank's position as Indonesia's biggest creditor, the loan (Loan number 2490-IND) certainly exerted considerable pressure on the government to implement strategies to improve both public and private sector accountancy. In the government accountancy sector, major improvements were made in the instalment of new government accounting system software. However, the biggest change took place in the private sector where efforts were undertaken to "ensure that financial accounting, reporting and auditing in private sector enterprises meets consistently high international standards" (The World Bank, 1994b p. 6). The report also emphasized the centrality of the government in providing "guidance and support to the process of drafting and issuing accounting and auditing standards" since the profession is still 'maturing' and "[ensuring] adherence to these standards" (The World Bank, 1994b p. 6). Specifically, the report also contended that the efforts should be best done through "a coordinated effort in capital market regulations, company and commercial law development, testing and licensing of public accountants and the strengthening of the Indonesian Accountants Institute" (The World Bank, 1994b p. 6). The World Bank's role was to provide technical assistance as well as funding of well-focused overseas higher education for a selection of staff who would then train and supervise all the above transformations.

The initial project ended on 30 June 1995 but it was extended on 22 September 1994 with the Second Accountancy Development Project on the grounds that it would "further support the Government for the modernization of the Government Accounting System and the enhancement of the credibility and usefulness of financial information in the private and public sectors" (The World Bank, 1994b p. i). A further loan amounting to US$ 33.9 million was made available to cover the anticipated expenditure of software and hardware procurement, overseas training and education as well as technical assistance. It was designed to support the restructuring process for the next 7 years and the milestones for the project were clearly specified. The project appraisal report stated that the loan "negotiation" had earned the World Bank "assurances" from the Indonesian Government that a detailed approach and work plan had been adopted (The World Bank, 1994b). This detailed work plan was listed in Schedule 5 (Implementation Program) of the loan agreement which stated that:

> "2. The Borrower shall, in a manner and substance satisfactory to the Bank:
>
> by June 30, 1996, adopt and, thereafter, implement or cause to be implemented the detailed approach and work plan for professional accountant qualifying examinations;
>
> by July 31, 1996, complete the requirements documents for the Government Accounting System Second Release (GAS R.2.0);
>
> by May 31, 1997, adopt at least 15 accounting and 15 auditing standards;
>
> by September 30, 1997, complete the enrolment process of at least 18 candidates for the overseas degree training program;
>
> by October 31, 1997, adopt and, thereafter, enforce or cause to be enforced at least 30 new rules and 10 disclosure guidelines for the regulation of Capital Markets;
>
> by November 30, 1997, complete and, thereafter, implement or cause to be implemented a pilot data communications system;
>
> by November 30, 1997, complete the acceptance tests of GAS R.2.0; and
>
> by July 31, 1999, adopt at least 40 accounting and 16 auditing standards." (Loan Agreement number 3801 IND between the World Bank and the Government of Indonesia dated 21 October 1994)

In the area of public sector accounting, the Accountancy Development Projects were able to meet most of their objectives, most notably in completing a new government accounting system, and significantly enhancing the education for the accounting faculty in the country. In private sector accounting, the project exerted pressure on the government to support and develop the infrastructure for the accountancy profession. With the support of the IAI (see e.g. The Asian Development Bank, 2003), perhaps the most significant indicator of the project's success in achieving its objective in the private sector was the revision of accounting and auditing standards. In 1994, the IAI set up *Komite Standar Akuntansi Keuangan* (Financial Accounting Standards Committee) to succeed KPAI (IAI Committee for Indonesian Accounting Principles) and *Komite Standar Profesional Akuntan Publik* (Public Accountancy Professional Standards Committee) to replace KNPA (IAI Committee for Auditing Norms)). Through the new committees, IAI decided to harmonize accounting and auditing standards with international standards (IAI, 2008). On 1October 1994, following its national congress, the IAI officially published a new set of accounting and auditing standards. SAK, the abbreviation of *Standar Akuntansi Keuangan* (Financial Accounting Standards), replaced the 1984 *Prinsip Akuntansi Indonesia* (PAI: Indonesian Accounting Principles). SAK was largely set up based on International Accounting Standards. The 1994 SAK was a complete makeover of the 1984 model which was branded as incomplete and narrow by the ADB (The Asian Development Bank, 2003). In total, SAK 1994 codified 28 PSAK (*Pernyataan Standard Akuntansi Keuangan* or Statement of Financial Accounting Standards).

Unlike the previous standards (1973 and 1984 PAI), SAK was revised twice in the space of just over three years. In April 1996, 2 more PSAKs for insurance industries were introduced and by December 1997, there were already 41 PSAKs. As for auditing standards, SPAP or *Standar Profesional Akuntan Publik* (Professional Standards of Public Accountants) was published on 1 August 1994 to replace the 1984 NPA (Accountants Examination Norms) as the Indonesian auditing standards. It contains the complete set of auditing standards, standards for attestation services, accounting services and review on financial statements as well as the quality assurance standards. SPAP was a close copy of the US Generally Accepted Auditing Standards with adaptation from the International Auditing Standards for matters that were in the US GAAS (The Asian Development Bank, 2003).

6.3. Pressures for setting up a competent and accountable profession

Changes to the regulation in enhancing the credibility of the profession also took place. Steps to strengthen the profession also took the form of providing legal frameworks through laws and regulations concerning the profession. As required by the World Bank:

> "Enforcement of accounting and auditing standards is also achieved through provisions in company and commercial law and associated ministerial decrees. Hence, the project would support limited but important technical assistance to ensure effective coordination among the law and decree making, standard setting, capital market rule-making and *professional accountants licensing and supervision activities*." (The World Bank, 1994b p. 9, italic added)

In response to the call, the MoF issued KMK number 43/KMK.017/1997 regarding Public Accountant Services in January 1997 to replace KMK number 763/KMK.011/1986 about Public Accountants. The new decree contained some important changes to its predecessor, including sections concerning the licensing requirements, foreign accountants and accounting firms, and supervision of public accountants and public accounting firms. Changes in licensing requirements were perhaps the most significant. First, the decree required all public accountant license applicants to pass *Ujian Sertifikasi Akuntan Publik* (Certified Public Accountant Examinations) held by IAI (Article 7 bullet a). This was a completely new requirement, which was in line with the terms of the World Bank's project. Secondly, the decree required all applicants to domicile in Indonesia (Article 7 bullet a), which lifted the citizenship requirement adopted in the previous decrees. In other words, foreigners could now apply for Indonesian public accountant licenses without reciprocity. Related to this, the decree also stated that "KAP can cooperate with foreign public accountants or accounting firms in the form of correspondence, technical cooperation or any other forms of affiliations so long as they are in accordance with any relevant governing regulations" (Article 5), thus clarifying the status of foreign cooperation. Other important changes are concerned with the supervisory authority and mechanisms. In the preceding institutional arrangement, the MoF regulatory function was limited to licensing and keeping a register of accountants while the supervisory authority had been with the BPKP (see Section 5). In the 1997 decree, the MoF's duty and authority was "to help develop public accountants and KAPs by, among others, monitoring KAP's compliance with relevant governing regulations" (Article 13). Together with this, the MoF also had the power to issue sanctions towards non-compliance. Depending on its seriousness, these sanctions included admonition, license suspension, or license revocation (Article 24). These provisions meant that the regulatory power of the MoF had been increased as it now had power in enforcing compliance with professional standards and codes of ethical conduct as the decree required all public accountants to adhere to them in rendering their services (Article 15).

7. Summary and conclusion

The narrative in the paper shows that the development of the profession in weaker countries is often not as straight forward as in the more socially and politically stronger countries. The drivers and directions of the development of the profession in many cases are the result of interactions of various actors and interest groups, both local and global. The concept of historical structure has enabled us to capture such influences on the profession, originating not only from inside but also outside the country. Indonesia under the New Order was a perfect example of such case. As a Western-backed regime that experienced political stability and economic growth, it is reasonable to expect the profession to grow and adopt the pattern of the model country (i.e. the US). The sign was there at the beginning of the New Order regime when the process of Americanization of the profession was expected to be smooth considering the closeness with Western power and economic thinking in the early years of its rule.

However, as narrated in this paper, the New Order had developed into an alternative structure in the form of a politico-business regime. Domestic capitalists, politico-business bureaucrats had all become major social forces, giving way to the rise of nationalistic, *ersatz f*orm of capitalism (Yoshihara, 1989) [29]. The increased revenue from the oil boom and the strong sentiments against Western power had granted the New Order the opportunity to advance its own developmental ideology. On the ideological front, it was able to balance foreign-oriented and nationalist agendas and on the economic front, it was able to groom enormous domestic conglomerates. As a result, the ideology of free-market capitalism was constantly challenged throughout the Order's era. In the political sphere, the open economy idealism propagated by the Western-educated technocrats was always challenged by the nationalist agenda of the politico-business bureaucrats. On the other hand, foreign influence (channelled through financial and political supports) faced resistance from the politico-business coalitions between domestic conglomerates and the bureaucrats.

The effect of it on the profession was twofold. First, the regime had different views on the role and function of the accountancy profession. Secondly, the regime's choice of economic policy had been coloured by various themes along the spectrum, with liberalism at one end and protectionism at the other end. From the outset, the New Order never officially closed its economy to the inflow of foreign money, and at the same time, it also introduced protective and interventionist measures under the argument of social justice (e.g. Rosser, 2002; Vatikiotis, 1998). Clearly, the fluctuations in economic policy had had direct impacts on the trajectory of the development of the accountancy profession in Indonesia.

Another lesson that could be learnt from the narrative is that global interests are differently represented from the previous world order. It is true that the drive towards a Western-style accounting profession ensued when the country leant towards the liberal system with the technocrats dominating the policy-making agenda. This was evident during the first and last decade of the New Order when professional infrastructure was developed and strengthened. However, the pressure no longer came from a single superpower country as evident in the previous period (the US). Rather, the major powers that exerted pressures were the multilateral institutions at international and regional levels. During the early decade of the New Order, it was the IMF that exerted all the pressures whereas in the last decade, it was the World Bank and the ADB. During these times, structural adjustments, deregulation and de-bureaucratization were carried out, in an effort to integrate Indonesia into the global financial and economic order. Both institutions were also required to take steps towards developing a "strong" and "independent" accountancy profession (such as strengthening the legal backing for the profession, setting up of internationally compatible accounting and auditing standards, and the qualification mechanisms). In addition, there had also been a change in the method of imposing pressures. The role and influence of foreign debts in the time of the New Order was more decisive in imposing the economic liberalization agenda. In the early years, the two important creditors were the IMF and the IGGI, a multi-government creditor forum for Indonesia. Through loan agreements, these creditors had successfully imposed their agenda for structural adjustments in the country in a rather dramatic fashion (e.g. the foreign investment Act 1/1967 and steps to set up capital markets during the early 1970s and especially after 1988).

[29] According to Yoshihara (1988), an ersatz capitalism is a form of capitalism where the coalition of government and local capitalist class were able to exploit a country's richness of natural resources to propel the economy (but not necessarily development) despite inefficiency and backwardness.

The Westernization of the profession was intermittent as the New Order effectively implemented a different type of capitalism i.e. crony/oligarchic capitalism (see e.g. Chua, 2008). Progress towards full adoption of a Western accountancy profession was compromised when the politico-bureaucrats were in power, especially from the second decade of the New Order era. With the growing power of domestic capitalist groups (i.e. *peranakan* and crony conglomerates), the need for an independent accounting profession was at its lowest point. During this time, the development of the profession depended heavily on the state's actions. In fact, the market for the profession had largely been a creation of state legislation. This was evident in the late 1970s when the country introduced tax incentive packages as well as in the early 1990 through a series of capital markets and financial sector deregulation. The close relationship between the state and the profession was also evident on issues of market access for foreign accountants and accounting firms.

The analysis in this paper, thus, supports the contention that the history of the accountancy profession in weaker countries in any given period depends on the socio-politico-economic structure interaction of that country as well as the influence of the seemingly ever-expanding forces of globalization. It also confirms that the drive for professional accounting development in ex-colony countries such as Indonesia follows the stages of globalization as a capitalist world-order. In the end, the direction of profession will depend on whether the country's internal specificity in terms of its material, ideological and institutional configurations serve as an alternative or compliment the capitalist world order.

In the case of Indonesia, to some extend the New Order had nurtured some form of bargaining position against the Western forces. As a result, the development of the profession from 1967 to 1998 under the New Order as an alternative politico-economic structure was intermittent (i.e. as and when the regime see the need of an accountancy profession infrastructure) and rather artificial (i.e. largely symbolic gesture to appease or fulfil demands of foreign capital interests). While a Western-style accountancy profession seemed to be the future model in the country in the early 1970s, its adoption certainly has been far from smooth. Overall, the World Bank's continuous attempt to 'upgrade' the profession to meet 'international standards' only had little impact despite the significant financial and economic reform agenda from 1988 until 1997. This was partly because the coalitions of the political power of the New Order's bureaucrats and the domestic conglomerates had reached their strongest point by the mid-1990s, causing the reforms to have rather partial and incomplete impact on the economy (Rosser, 2002). The limited impact of reforms was reflected in the profession. For example, the Australian Department of Foreign Affairs and Trade still regarded Indonesia's professional infrastructure conditions in the late 1990s as "not yet up to international norms and … enforced weakly" (The Australian Department of Foreign Affairs and Trade, 2002 p. 93). In other words, the profession seemed set to embark on a similar path of intermittent development as in the previous periods given the fact that the New Order still stood firmly as Indonesia's prevalent political power, at least until early 1997.

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