The Role of Institutional Entrepreneur in IFRS diffusion: The Case study of IFRS Convergence in Indonesia

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Abstract

Purpose - This paper evaluates the process of IFRS convergence in the developing country, using Indonesia as the case study. Applying Institutional Theory and Institutional Entrepreneurship Theory, this paper aims to provide a closer examination to the process of IFRS convergence and how institutional entrepreneurs play a crucial role in institutionalizing IFRS.

Design/Methodology/Approach: The paper uses variety archival data as well as in-depth interviews with the members of Indonesian Financial Accounting Standard Board (DSAK) as well as other key relevant stakeholders involved in the decision making process.

Findings: From a US GAAP follower before 1994, by 1 January 2012 Indonesia has adopted almost all IFRS in to their local standard. Although Indonesia has not yet committed to fully adopt IFRS and cease its local GAAP, the process of institutionalizing IFRS was not without challenges. Contrary to previous research which argue that developing countries was imposed to accept IFRS by international donor agency, Indonesia's decision in adopting IAS in mid 1990s was independently taken by the accounting profession. However the pressure from international bodies such as IFAC, IOSCO, World Bank and G20 were documented during the period of IFRS convergence in 2004-2012. Beside the international pressure, other contributing factor to adoption of IFRS is the role of key individuals who initiated the change and mobilize support to institutionalized IFRS in the country.

Originality/Value: In contrast with macro perspectives case studies, this study offers a closer observation of IFRS convergence in the developing country using relatively new institutional entrepreneurship theory.

Keywords: IFRS, Convergence, Indonesia, Institutional Entrepreneur

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1. Introduction

This paper investigates the process for the convergence of International Financial Reporting Standards (IFRS) in the developing country using Indonesia as the case study. The year 2011-2012 is an important milestone for the international accounting standard (IFRS) convergence in Asia. Following Europe's IFRS adoption in 2005, Asian countries captivate IASB attention as many countries plan to apply IFRS for the first time in 20011/2012. Korea and India mandated IFRS in 2011 while Malaysia, Singapore and Indonesian in 2012 and the remaining countries are developing similar convergence road maps.

The impact of IFRS adoption has been a major research question in the capital market based research area (Daske, et.al.2008; Armstrong, et.al, 2008; Barth, et.al., 2008; Christensen, et.al, 2007). The qualitative researchers usually scrutinize the politics and lobbying on to IASB (Bengtsson, 2011; Perry& Nöelke, 2005; Zeff 2002) or the process of accounting standard development in developed country such as US (Young, 2006) and Canada (Durocher et al., 2007), however the process of IFRS convergence inside a national accounting standard setter, especially from a developing country in the process of adopting IFRS is scant.

The case study of IFRS adopting countries mainly focus in looking for adoption reasons or institutional factors which encourage countries in adopting IFRS. The sample of case studies explaining why country switch to IFRS mostly use institutional theory (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991; Meyer & Rowan, 1977; Meyer, 1983) as their lens to explain the IFRS adoption process

Some papers have investigated the factors affecting the adoption of IAS/IFRS, especially for developing countries (Peng&Bewley, 2010; Ding&Su, 2008; Peng&Bewley, 2010Zeghal&Mhedhbi, 2006; Masheyekhi&Mashayek,2008; Perera&Baydoun, 2007) and ex-communist emerging country (Albu, et.al, 2011, Tyrrall, et.al, 2007). External pressures from international agency such as World Bank or ADB have been discussed in many case studies as one of dominant factors for IFRS diffusion in the developing countries. (Albu et.al, 2011; Mir&Rahaman, 2009; Hassan,2008). The similarity of cultural and legal framework as contributing factors are also discussed (Ding et.al, 2005; Lasmin 2011; Judge 2011).

Institutional isomorphism has been widely applied in country-specific case studies to frame the factors for IFRS convergence. However, country-specific case studies are too focused to explain why developing countries adopted IFRS and seldom portrait the process. The existing case studies tend to provide macro country analysis focusing instead on the influence of exogenous shock such as the pressure from international donor bodies or the adoption of IFRS by EU. This study offers more than factors of IFRS adoption in the developing countries but also an endogenous perspectives of the process by examining of how the decision was made, by whom and whether the whole process of institutionalized IFRS in the country was orchestrated by several key actors or what we call as institutional entrepreneurs.

Indonesia, the fourth most populous country in the world and the only G20 member from South East Asia country, is under scrutiny of many international agencies to adopt IFRS as one of G20 commitment. In March 2013, IASB Chairman Hans Hoogervorst urged Indonesia to fully adopt IFRS without carve outs on his speech in front of Indonesian accountants and key decision makers (Hoogervorst, 2013). Indonesia would be an interesting case as the decision of adopting IFRS is in the hand of accounting profession and its private accounting standard setter. Without political and funding support from the government, nor legal mandate from the parliament, the accounting profession were struggling in convincing stakeholders after IFRS convergence was firstly announced in 2004.

The process of harmonising Indonesian standard with IFRS dated back to 1994, although US GAAP remained as reference to develop standard. In 2004, the Indonesian Institute of Accountants (IAI) set a goal of full adoption of IFRS by 2008. This target year then was revised in 2006 to reach full convergence by 2010 only to be revised delayed again in to 2012. Failing to meet IFRS convergence target several times have raised some concerns from international agency over the resources and accountability of the institute (Worldbank, 2010). After the 2004 announcement, institutional entrepreneur in IAI faced major challenges in mobilizing support from the government and other stakeholders for the IFRS convergence initiatives. The full swing of IFRS convergence process just took place at the end of 2008.

The decision to adopt IFRS in Indonesia is far from public involvement. The decision was made by few influential individuals in 2004, who then struggling in securing supports from the government and other stakeholders. Various discussions and negotiations by these few institutional entrepreneurs finally enabled to obtain wider support by 2008. In December 2008 they re-announced the IFRS convergence plan and the snowballing effect started ever since. IFRS translation process was expedited, many universities revisited their accounting program curricula to incorporate IFRS, hundreds of public seminars and trainings about IFRS were held across the country.

As of 1 January 2012, Indonesia has adopted almost all IFRS except IFRS 1 First Time Adoption and IAS 41 Agriculture. Some IFRS are adopted by minor modifications such as IFRIC 15 Agreements for the Construction of Real Estate and IAS 27 Consolidated Financial Statements. The IFRS as of 1 January 2009 has been translated into Indonesian language and it is effective for business transaction starting 1 January 2012. Together with Malaysia and India, Indonesia is still waiting for further revision on IAS 41 Agriculture before making decision to adopt the standard.

However Indonesia has not yet made that big leap to fully adopt IFRS like Philippines, Canada or Brazil. In those countries local GAAP ceased to exist, and the countries adopt IFRS in the same effective date as issued by IASB. The decision of full IFRS adoption in Indonesia should be decided in 2012 however until May 2013, Indonesia has not yet make any decision. The question of authority, who supposed to decide of full IFRS adoption, has been enquired by IASB Chairman on his recent visit to Indonesia on March 2013[3]. This make Indonesia's position similar to Japan, where both countries have been diminishing the gap between their local GAAP and IFRS over the years but remain undecided when will be the year for full adoption. Indonesian Financial Accounting Standard (PSAK) although very close to IFRS, it is not IFRS and the Indonesian Accounting Standard Board never claims that PSAK is IFRS.

This paper aims to investigate the forces for IFRS convergence in Indonesia and illustrate the role of institutional entrepreneurs in the process of institutionalized IFRS as a new accounting norm in Indonesia. Other scholars have tried to examine the accounting standard development in Indonesia such as Perera and Baydoun (1997) who proposed an argument that the Indonesian reluctance in accepting IFRS was because, inter alia, the Islamic rules practiced by most of the population. Rosser (1999) argued that the accounting development in

[3] Private conversation between the author and IASB Chairman, March 7th, 2013.

Indonesia heavily depend on the political economy situation. Those two papers, again, provide macro analysis and overlook the important role of institutional entrepreneur in institutionalizing new accounting ideology in the country.

Most of the country case studies of IFRS focus too much on the historical time line or the external forces toward the country decision makers and neglect the decision making process itself. This paper contributes to the literature of IFRS convergence process especially in developing countries by offering closer observation using institutional entrepreneurship as the framework. To understand the decision making process closer, the IFRS transnational organization such as IASB, IFAC and World Bank officials may learn that the decision to adopt IFRS is highly dependent upon some key individuals of the country. Instilling IFRS on to developing countries may be more effective by identifying institutional entrepreneurs and assist them in mobilizing support they need.

The paper is structured as follows. The next section provides conceptual framework of Institutional theory, delineate the institutional isomorphism and institutional entrepreneurship theory. The third section presents the research methodology. A brief information about the regulatory framework for financial reporting in Indonesia is discussed in section four. Section five of the paper discuss' the IFRS convergence process in Indonesia both in the mixed IAS-US GAAP period 1994-2004 as well as the IFRS convergence period 2008-2012. In the discussion, section six, the paper offers explanations on the factors affecting the IFRS convergence as well the role of institutional entrepreneur in the process. The paper ends with the conclusion.

2. Theoretical Development

In this section, institutional theory will be discussed as the theoretical framework of the paper. Isomorphism in the New Institutional Sociology Theory (NIS) and the concept of institutional entrepreneurship are useful to frame the IFRS convergence process in Indonesia. Isomorphism are widely used in the IFRS adoption case studies while institutional entrepreneurship are more common to frame the organizational change in a company's case study.

New Institutional Theory: Isomorphism

The New Institutional Sociology Theory (NIS) has been refined by DiMaggio and Powell in 1983 in the academic journal of American Sociological Review (DiMaggio and Powell, 1983). Contrast with many modern organizational theory which explains variation among organization and behavior, DiMaggio and Powell posits different question which is why there are so many homogeneity in organizational forms and practices (Powell and DiMaggio, 1991)

DiMaggio and Powell (1983) identified three mechanisms through which institutional isomorphic change occurs, each with its own antecedents: (1) *coercive isomorphism* that stems from political influence and problem of legitimacy, (2) *mimetic isomorphism* resulting from standard responses to uncertainty; and (3) *normative isomorphism*, associated with professionalization.

Coercive isomorphism concerns the ways in which organization are subject to external pressure, either from organization they depend upon, or from more general cultural expectations. (Carruthers, 1995). Coercive isomorphism stems from political influence and the problem of legitimacy. It also results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent (Powell and DiMaggio, 1991)

Mimetic isomorphism concerns the ways in which organization emulate (or 'mime') the actions of similar organizations that are perceived to be more legitimate or successful in the institutional environment (Rodrigues and Craig, 2001). Uncertainty is a powerful force that encourages imitation. When an organization faces a problem with ambiguous causes or unclear solutions, adapting other organization's strategy or action may be a good solution with little expense.

Normative isomorphism recognizes how individuals of a similar calling organize in a professional organization to promote a cognitive base, diffuse shared orientations and organizational practices and legitimize their activities. (Powell and DiMaggio, 1991). Organizational personnel who are also members of a professions are recognized as possessing specialized training and knowledge and frequently can define the terms and condition of their labour. The experience of a specialized education and the involvement in professional networks influences how professional personnel undertake their activities within the organization (Carruthers, 1995)

When a country decides to adopt IFRS and abandon their previous accounting standard, the main reason should be economical such as IFRS will bring economic benefit to the country. The economic benefit can be the decline in the cost of capital or the significant increase of foreign investors in the country's capital market. However, some studies suggest that the reason of a country adopting IFRS is not economical but more on achieving institutional legitimization. The three type isomorphism is powerful to understand what force a country in adopting IFRS.

In the context of IFRS convergence movement, institutionalization can be viewed as a social process through which a country accept that national accounting standards are absorbed in the interests of international accounting harmonization. (Rodrigues and Craig, 2007) Some existing studies reveal that the processes of isomorphism have exhibited for many years, in many countries. IFRS is not only used in Anglo Saxon Countries which mostly based on microeconomics, shareholder oriented, judgement-based financial reporting (Doupnik & Salter, 1995; Nobes 1998) but IFRS harmonization are also evident in countries in a different accounting regime such as code law countries. China for example, from the Rusian style accounting standard in the past, China has been gradually accepting IFRS since 1997 (Ding&Su, 2008). Kazakhtan, a former USSR country, also tried to adopt IFRS since its independence in 1991 (Tyrall et.al. 2007).

In the field of international accounting research, especially research on IFRS adoption/convergence, NIS has been used both in quantitative and qualitative research. As suggested by Rodrigues and Craig (2007), NIS is useful in explaining development in international accounting over period of time. Some researchers try to find empirical evidence of reasons behind the adoption of IFRS and apply NIS as their theoretical framework. Research by Judge, et,al. (2011) or Lasmin (2011) proxy three isomorphism with quantitative data. For normative isomorphism those two research use the enrollment level of secondary education and with coercive isomorphism, the percentage of foreign aid as total of country

GDP is used. For mimetic isomorphism, the Lasmin (2011) use the average percentage of market capitalization to the GDP while Judge, et,al. (2011) use import penetration as their independent variable. The result of two studies is not consistent. While all three independent variables have predictive value to which IFRS has adopted across hundreds of countries with varying degrees of adoption, Lasmin (2011) found coercive isomorphism is the most predictive while Judge, et.al (2011) found normative isomorphism has more predictive value.

The NIS framework to explain IFRS convergence in country case studies has also been applied in qualitative case study for Romania (Albu, et.al.,2011), Sweden (Collin, et.al., 2009), Egypt (Hassan, 2008), French (Touron, 2005), Pakistan (Ashraf & Gani, 2005), and Bangladesh (Mir & Rahaman, 2004). All authors argued that coercive force has been the major factor in the IFRS convergence process. Either it is coercive pressure from the international donor organization such as IMF to a country or a coercive pressure from the government's rule to the companies. Touron (2005) case study of French is a little bit different as the study investigates the motivation of two companies in using IAS (predecessor of IFRS) in 1970s far before IAS become mandatory in Europe. Mimetic isomorphism has been used in Touron (2005) study to explain the motivation of these two companies in applying IAS far before they are mandated to. Nevertheless, companies in European Union faced a strong coercive pressure in adopting IFRS in 2003 when European Commission approved the proposal to adopt IFRS in 2005 (Whittington, 2005; Brown & Tarca, 2005)

Institutional Entrepreneurship

While institutional isomorphism is useful to explain why IFRS is adopted in developing country such as Indonesia, institutional entrepreneurship is helpful to examine the process of how IFRS being institutionalized in Indonesia. Institutional entrepreneurship refers to the 'activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones' (Maguire, Hardy & Lawrence, 2004). The actors to whom the responsibility for new or changed institutions is attributed have been termed institutional entrepreneurs. This term was introduced by DiMagio in 1988 in an effort to explain how actors can contribute to changing institutions despite of pressures towards statis. Institutional entrepreneurship thus emerged as a new avenue of research into endogeneous explanation of institutional change with more than 60 book chapters and articles on the subject published in peer reviewed journals in North America and Europe over the past decade (Battilana et al., 2009).

Institutional entrepreneurs can be individuals or groups of individuals (Fligstein, 1997; Maguire et al., 2004), or they also can be organizations or groups organizations (Garud, Jain & Kumaraswamy, 2002; Greenwood, Suddaby, &Hinings, 2002). For change agents to be regarded as institutional entrepreneurs they must fulfill two conditions: (1) initiate divergent changes and (2) actively participate in the implementation of the changes. Institutional entrepreneurs must also actively mobilize resources to implement change to be regarded as institutional entrepreneurs.

Not all change agents can be regarded as institutional entrepreneurs. One way to distinguish institutional entrepreneurs from others in the field are their properties – special characteristics, qualities and abilities (Hardy & Maguire,2008). Institutional entrepreneurs often sees as someone who is visionary with a strong social position. Battilana et.al (2009) argue that actor's social position is one of enabling condition for institutional entrepreneurship. The status of the organization in which individual actor is associated as well as his hierarchical position and informal network position within an organization are likely to influence the likelihood of an actor will engage in institutional entrepreneurship (Batttilana, 2006)

The role of institutional entrepreneurs and their action in the diffusion of IFRS in has been neglected in existing IFRS literature. Accounting standard setting is a political process and IASB does not impervious to political lobby by powerful actors such as EU (Bengtsson, 2011) and financial institutions (Perry&Nöelke, 2005). IFRS requires radical change in most of developing countries, with the notion of fair value and principle based standards. IASB needs local agents in the adopting countries to institutionalize IFRS and support IFRS diffusion.

The decision to adopt IFRS in the developed countries such as US and Canada brought more public opinions through "invitation to comments" discussion paper or other public consultancy. The standard setters in other emerging countries are privileged by a strong mandate from the accounting law act which stipulates the adoption of IFRS such as the case Philippines (Accounting Act 2004) and Brazil (Law N.11 638 in 2007), thus reduce their pressure for public consultation. However institutional entrepreneurs in the developing countries where standard setter are less resourced and the standard setting process is less transparent, such as Indonesia, arguably are more influential to the decision making.

Indonesia is an interesting case to understand the role of institutional entrepreneurs in the IFRS adoption decision, because the decision to adopt IFRS did not have a strong mandate from the parliament, nor from the government (for example a statement from finance minister or Indonesian FSA chairman). Thus the institutional entrepreneurs must had campaigned very hard to persuade the doubtful parties, mobilize resources and secured political support to reach the current state at the moment where IFRS is almost fully incorporated to Indonesian local GAAP.

3. Research Methodology

The empirical data for the study is collected over the duration of four months during 2012-early 2013. Our empirical materials include 27 interviews and confidential IAI documents such as Board minutes of the meeting as well as publicly available documents in IAI magazine, conference proceeding and annual reports. Data from other sources were also examined such as World Bank reports, IFAC SMO (Statement Membership of Obligation) compliance report, the autobiography of Hans Kartikahadi, the former chairman of the Indonesian Financial Accounting Standard Board (DSAK).

We primarily used archival documents to construct a chronology of events. These documents embraced both public and internal materials. From the archival analysis we concluded that Indonesia faced two period of major change in regard of IFRS adoption, first period 1993-1994 when DSAK decided to harmonize IAS in to local standard and in 2004-2008 when the full IFRS adoption was announced and re-announced. From the archival analysis, we identified individuals who were involved in the decision making of IFRS adoption. We then distinguished the institutional entrepreneurs from those individuals.

20 respondents were interviewed, with some respondents interviewed more than once. Six respondents involved in the first period, ten respondents involved in second period and four

respondents involved in both periods. Interviews were used for three purposes. First respondents were asked to validate our chronology of events. Secondly, respondents assisted us in validating the institutional entrepreneur we initially identified, they were not asked to confirm our interpretation but they answered series of questions on who are the most responsible for the decision and the process. Thirdly, the respondents were asked to discuss the context and the circumstances when the decision of IFRS adoption was made. For the interviews with the individuals identified as institutional entrepreneurs were usually longer and they were asked about their activities or roles in mobilizing resources and support.

Respondents are members and former members of the Indonesian Financial Accounting Standard Board (DSAK), current and former chairmen of DSAK, former chairmen of the Indonesian Institute of Accountants (IAI), former chairmen of Indonesian SEC (Bapepam LK), and two current directors of IAI. Semi-structured interviews were conducted for 21-180 minutes with the average interview duration is 78 minutes. Interviews were taped, transcribed and analyze.

For 1994 period we first identified one institutional entrepreneur: former chairman of DSAK. This person we identified then confirmed by our respondents as the main actor for the adoption of IAS. For 2004-2008 period we identified two institutional entrepreneurs: The former chairman of IAI and former chairman of Indonesian SEC which are also confirmed by our majority of respondents. For the period after 2008 we identified one institutional entrepreneur, the current chairwoman of DSAK.

4. Indonesian Regulatory Framework For Financial Reporting

The fourth most populous country in the world is situated in South East Asia, north west of Australia. Consists of 17,504 islands, the democratic country possess rich natural and mineral resources. As of April 2012, the country's economy is expected to grow by 6.3 percent in 2012. The country's gross national income per capita has steadily risen from $2,200 in the year 2000 to $3,720 in 2009. In terms of macroeconomic stability, Indonesia has managed to fulfil many of its fiscal targets, including a significant drop in Debt-to-GDP ratio from 61 percent in 2003 to 27.5 percent in 2009. (Worldbank, 2012).

Although capital market is not major source of finance for most Indonesia business entities, Indonesia's stock exchange (IDX) has been considered as high yield market. In just two years from October 2008 – December 2010, Index of IDX has increased more than 160%. IDX was awarded as the best stock exchange of the year in South East Esia twice in 2009 and 2010 by Alpha South East Asia Megazine of Singapore. (IDX Annual Report 2010)

Capital market regulator has always been important driver for financial reporting in Indonesia as most of the companies prepare their financial statements to be submitted to the tax authority or market regulator. The capital market law No 8/1995 requires company to prepare financial statements in accordance with the accounting standard issued by IAI.

According to the *Indonesian Company Law No. 40 (2007)*, each corporate entities are required to prepare annual financial statements in accordance with the accounting standards issued by the Accountant Association. Although there is no formal legal backing to IAI as a professional accounting body, the Indonesian Financial Accounting Standards Board under IAI acts as the de-facto standard setter in the country. According to Indonesian economic survey 2006, there are more than 22 million businesses in Indonesia, of which 83.4% are micro companies, 15.84% are small companies and only 0.73% (or about 166.500) entities are medium and big companies. From those companies only 442 companies are listed in the Indonesian stock exchange (as of January 2012). Indonesia also has 142 state-owned enterprises of which 12 are listed.

Although the law clearly requires companies to prepare annual financial statements, this law has little enforcement as there is no single government agency collecting and imposing this law on to all companies. Thus most private non-listed companies prepare financial statements for taxation purposes. A ministerial decree No 121/MPP/KEP/2/2002 requires companies with certain requirements to submit annual financial report to the Ministry of Trade, however there were only 2474 reports accepted for the 2008 financial year (Ministry of Trade, 2010). Any company satisfies one of these five requirements needs to submit their annual financial report to the Ministry of Trade:

1. Listed company
2. Collect and Manage people's fund (such as bank, insurance, etc)
3. Issuing bond or loan certificate
4. Total asset above IDR 25 billions
5. Debitor imposed by its bank to report.

The company's law also requires companies with above requirements to be audited by independent auditor, except the minimum size of asset is above IDR 50 billions. However as no government agency monitors this practice, the law enforcement is not in existence.

Listed companies are obliged to fulfil the capital market law requirements in addition to the company's law. Capital Market Law No. 8 (1995) requires issuers with effective registration statement or listed companies to publish periodic reports and submit such reports to Bapepam-LK (Capital Market Supervisory Agency). The annual financial statements of listed companies must be audited and filed with Bapepam-LK within 90 days of the calendar year-end. Half-yearly financial statements must also be filed with Bapepam-LK within 30 days, 60 days, or 90 days if unaudited, reviewed, or audited. The Indonesian Stock Exchange (IDX) requires interim reports to be submitted and all financial reports of listed company are available in the IDX website.

Financial institutions are under more stringent regulation in regards of financial reporting. According to Bank Indonesia Regulation No. 3/22/PBI/2001, semi-annual and annual financial statements of banks must be audited and publicly disclosed within 60 days and four months, respectively, after the end of accounting period. Banks must also submit their audited annual financial statements to Bank Indonesia, Customer Protection Agency, rating agencies and two economic and finance magazines, no later than five months after the end of the financial year. In addition, a quarterly summary statement should also be published in the newspaper. Other disclosures required for banks, such as a monthly and quarterly summary statement, are documented and published on the Bank Indonesia's website. Central Bank issued their own reporting guideline for banks which mostly in accordance with IAI's accounting standards and the addition of some bank prudential measurements. The guideline has been revised from time to time in parallel with the changes of the accounting standards.

All banks financial report need to be audited by certified public accountants (CPA) acknowledged by the central bank.

Insert Table 1 Here

For financial institutions other than Banks, Ministry of Finance Decree No. 424/KMK.06/2003 requires insurance companies to submit quarterly and annual financial statements to Bapepam-LK. In addition, Ministry of Finance Decree No. 509/KMK.06/2002 requires pension funds to submit semi annual and annual financial statements. Bapepam-LK also issued financial reporting guideline for insurance and pension funds, however the revision of this guidelines are not as timely as banking guideline, which created confusion among companies during the time of IFRS convergence where the accounting standards dramatically changed in the last two years. All non-bank financial institution also must be audited by CPA acknowledged by Bapepam-LK.

5. Indonesia Accounting Standard Evolution: From US GAAP to IFRS

Indonesia is among very few countries where the accounting standard setting is still within the accounting profession. Similar with Canada, Indonesia Accounting Standard Board (DSAK) as the accounting standard setter is funded by the association of accounting profession, for Indonesia it is the Indonesian Institute of Accountants (IAI). Although the Indonesian SEC (Bapepam LK), which was then merged in to Indonesian FSA in 2013, is very powerful standard setter but Indonesian SEC always delegate the standard setter power to the accounting profession. For the Indonesian SEC, it is important to have the accounting standard issued by the profession to increase its legitimacy. [4]

Indonesian accounting standard (PSAK) is issued by DSAK, which is oversight by the IAI national representative council (DPN-IAI). DSAK may consult with its Accounting Standard Advisory Board (DKSAK) for major decisions. Although DSAK members were chosen for their technical capabilities and should act independently, DPN-IAI always consider to representativeness of various stakeholders. At the moment, DSAK has 18 members consist of representatives from accounting practitioners (usually partners of Big Four and one or two from smaller firms), capital market supervisory agency, academics, central bank, tax authority and public sector accountant.

During 1970s-1980s, as the Indonesian accounting standard was not well developed, US GAAP is the ubiquitous standard widely implemented among Indonesian business entities.

> *"During those time most of my clients are foreign companies and they use US GAAP at that time. But many Indonesia big companies like Astra, Salim Group, they also asked to use US GAAP."* Utomo Josodirjo, interview 11 December 2012, founder of biggest accounting firm in Indonesia "Prasetyo Utomo"

The first set of accounting standards was formulated in 1973 was an adaptation from Accounting Research Study No.7, ' Inventory of Generally Accepted Accounting Principles for Business Enterprises', published by American Institute of Certified public Accountant (AICPA). The second milestone happened in 1984. The committee of PAI fundamentally

[4] Interview with former Indonesian SEC Chairman (1984-1988), 7 February 2013.

revised ‘PAI 1973’ and subsequently codified it in the book of “Indonesian Accounting Principles 1984 (PAI 1984)” with the aim to adapt the accounting provisions with its rapid business development. Most of PAI 1984’s reference was also US GAAP.

5.1 The Adoption of IAS and “Mixed IAS-US GAAP” : 1994-2004

At 1994 IAI quadrennial congress, IAI decided to adopt International Accounting Standard (IAS) and started to depart from US GAAP. The decision was not uncontested as Hans Kartikahadi, the chairman of Indonesian Accounting Standard Council at that time revealed in his autobiography:

“The council has worked very hard to adopt IAS. The standards were translated, discussed in public hearing, and has been approved by the plenary meeting of IAI national representative council. But then in the congress, the decision of adopting IFRS were contested, mostly by accountant academics who just returned from their postgraduate study in the US. Realising that all the hard work may be rejected, I was then stand up and spoke very loudly and firmly to defend the council’s decision and clarify the ill-advised arguments against IAS. Many of my friends were surprised as I am usually a calm person and rarely spoke loudly. I felt sorry after that to lose control, but perhaps that was the most fruitful and meaningful “anger” in my life. The congress then approved the IAS and that day was a historic day for the development of Indonesian accounting standards.” – Hans Kartikahadi, Pelangi di Cakrawala Profesi Akuntan (Rainbow in Accounting profession Horizon), page 62-63.

According to current DSAK Chairman, Rosita Uli Sinaga, which also attended the 1994 congress, the main argument against IFRS at that time was the suspicion of IFRS will not suitable for Indonesian culture and business context. The opposing group argued that IAI should make a research to investigate if IFRS suited for Indonesian business environment before deciding adopting it.

“I still remember in 1994 the capital market was booming and a lot of foreign investor came to Indonesian market. Hans Kartikahadi tried to argue that argument by saying that such research will takes time and also the essence of accounting standard is actually ‘languange’ of financial reporting. If most of investor who read financial reports are Indonesian, then such research is needed. However if most of investors are foreign and we would like to attract more of foreign investors then we should use International ‘language’, which is IFRS” – Rosita Uli Sinaga, Interview December 10th 2011.

Many scholars argued that the accounting policies in developing countries, for most part, been imposed by foreign aid donors (Ashraf and Gani, 2005; Mir and Rahaman, 2004; Annisette, 2004). This intrigued an interesting question whether Indonesia’s decision was not imposed by World Bank as it received two grants from World Bank to develop its accounting standard both in 1988 and 1994. These two grants include technical assistance in translating IAS from English in to Indonesian language. The Indonesian Institute of Accountants with limited funding and technical staff to support the accounting standard board were greatly assisted by this technical assistance provided by the Ministry of Finance.

Etty Retno Wulandari, accounting standard board member from Indonesian SEC, mentioned that the Wold Bank grant was not only for the accounting standard development but also for the development of capital market law which was enacted in 1995 and effective in 1996. The development of accounting standard was part of a big project to improve the capital market infrastructure and push the capital market to the next level.

> *"Unfortunately I joined the Indonesian SEC in 1996, but I know that we received the world bank grants to improve our capital market infrastructure, including for the adoption of IAS in 1994 and the development of capital market law. We also received a lot of technical support from the World Bank consultant to develop capital market regulations after the law was enacted. I remember I worked with two World Bank Consultant from US SEC, so if you look in to our capital market regulation the format is very similar to US SEC regulation."* Etty Retno Wulandari, interview 10th January 2013.

The funding from World Bank was confirmed by the IAI executive director, Elly Zarni Husin and also by Rosita Uli Sinaga. World Bank's grant have enabled IAI to do benchmarking to other accounting association in developed country, also developed certification or Indonesia CPA Exam. The fund from World Bank was also pivotal to fund the IAS adoption in 1994. However both Elly and Rosita denied that the decision to adopt IFRS was imposed by the World Bank as the prerequisite to use the money grant.

"I believe that we received grant from World Bank via Ministry of finance to fund the 1994 IAS adoption. However I didn't witnessed the Board received any pressure from the World Bank to adopt IAS. It was the Board decision." Rosita Uli Sinaga, the interview 26 October 2012.

The funding support from the World Bank may be pivotal for the adoption of IAS, however from several interviews of the Board members of that period (1990-1994); we could not find any evidence that there was a pressure from the World Bank to adopt IAS. All of our respondents from that period, believed that the decision to adopt IAS was a collegial decision amongst the Board member.

Similar statement was also presented in Hans Kartikahadi's autobiography. The decision to adopt IAS was carefully and exhaustedly discussed in DSAK meetings. One of the considerations to shift to IAS was because US GAAP sometime did not fit in to Indonesian's need because it was developed for US country. One of the standards being scrutinized was accounting for foreign exchange. In fact in Hans Kartikahadi's autobiograpgy, he revealed that the World Bank grant was difficult to access by DSAK due to complicated beuracracy in Ministry of Finance. Thus DSAK received a short loan from Hans's accounting firm to fund the process of translation and meetings accommodation.

Another confirmation also comes from Elly Zarni Husin, IAI Executive Director that mentioned in the interview that although World Bank grant was helpful, but IAI will be in the similar position without the grant.

"The Council member of IAI were very determined at that time to seek funding for the adoption of IAS (in 1994), if we did not get the funding from World Bank, we would try something else." – Elly Zarni Husin, Interview 21 May 2012.

Upon the adoption of IAS which is allegedly principle based, IAI still issued many industry-specific rule based standards, to answer request from the industry's regulators. Some of the example are accounting standard for cooperatives, accounting for banking industry, accounting standard for oil and gas industry, accounting for general mining, and accounting for forestry cultivation. US GAAP remained an important reference to develop these industry-specific standards.

"In 1994 Indonesia took big bang approach by adopting the whole set of IAS. During five years after that, we faced implementation challenges. 1994 was the first time we had a complete set of principle based accounting standard so Indonesian companies were struggling in applying the standards, thus they asked DSAK to make more detailed standard specific to the industry. That is the reason we had so many industry's specific standards." Rosita Uli Sinaga, Interview December 10th 2011.

In its development, financial accounting standards in Indonesia continue to be revised on an ongoing basis, whether in the form of improvements or additions of new standards since 1994. The revision has been done seven times, which were on 1 October 1995, 1 June 1996, 1 June 1999, 1 April 2002, 1 October 2004, 1 September 2007, and 1 July 2009. IAS/IFRS remains the major reference for the accounting standard development, however Indonesia also consider US GAAP or Indonesian law as references for some of accounting standards. According to the Financial Accounting Standards (Standar Akuntansi Keuangan) as of 1 January 2009, Indonesia has had 62 PSAK (Accounting Standards) and 8 ISAK (Interpretation) while IFRS only has 37 standards and 27 interpretations.

5.2 The IFRS Convergence Period: 2004 – 2012

The decision to fully adopt IFRS and abandon US GAAP entirely was announced by IAI's chairman in National accounting convention in the city of Yogyakarta in 2004. The target year for fully adoption was 2008. However in 2006 the target was moved in to 2010 and in December 2008 the target was extended again by 2012. The failure to meet IFRS adoption target several times raised World Bank concern over the ability of IAI to bear the responsibility of accounting standard setter.

…The convergence of Indonesian accounting standards with IFRS is too important to be left to a private sector organization like IAI, which failed to meet the IFRS convergence target a few times in the past… - World Bank 2010 ROSC Paragraph 71

Elly Zarni Husin, the executive director of IAI, in her interview revealed some of reasons why IAI have failed to meet those targets. One of the reasons was lack of technical resources and funding allocated for DSAK. She also mentioned the issue of effective leadership of DSAK and lack of international communication as impediments of IFRS convergence, but above all she believed in 2004 the whole stakeholder especially IAI was not ready for the change. Denny Poerhadiyanto, IAI Director for Education and Trainings offered another contributing factor to the failure. Lack of government support in term of regulation supporting IFRS is also one factor that makes DSAK was not really enthusiastic in embracing IFRS. The condition of the accounting profession was also not ready to embrace full IFRS convergence in 2004[5].

[5] Interview with Deny Poerhadiyanto, 21 May 2012.

> "*If I can be honest, in 2004, the announcement of IFRS convergence at that time was a little bit immature. But IAI's chairman decided to announce it in that national event in a hope to gain support from the profession and also the government to achieve that goal together. Beside the focus of IAI at that time, honestly, was not on IFRS convergence but more on the strengthening the funding source of IAI because we just bought new building.*"
> Elly Zarni Husin – Video call Interview 21 May 2012

Although DSAK failed to meet IFRS convergence target they have some other notable achievements. During 2006-2010 DSAK issued 9 accounting standards in accordance with Islamic shari'ah law (IAI Congress Report 2010). DSAK also develop accounting standard for SME (namely SAK-ETAP) over two years and officially issued in 17 July 2009 to be effective as 1 January 2011. SAK-ETAP is a set of standar intended for SME or private entities without significant public accountability. SAK-ETAP is an independent standard from PSAK which is intended for listed company and medium-big enterprises.

The rush of IFRS convergence was started in July 2009 with the appointment of new DSAK chairman, Rosita Uli Sinaga. She was not comfortable with the word IFRS Adoption which means fully adopt IFRS word by word, decided to redefine in to "IFRS Convergence" which means "*Revising PSAK to reach material compliance with IFRS as of 1 January 2009, which will be effective at year 2011/2012.*"

The redefinition of IFRS Convergence was communicated both nationally and internationally. Although communicating a new message was not easy, redefinition was beneficial to calm nervous stakeholders (regulators, accountant professions and users) who have been communicated before that Indonesia would fully adopt IFRS, translated word by word, without any modification by 2012. DSAK chairman in many public engagements firmly this will not be the case for Indonesia.

Within only six months from July to December 2009, DSAK issued 10 new standards, and 5 interpretations, in which all are translated from IFRS. This is a significant increase from previous years where DSAK only issued 2 standards in 2006 and 2008 and 3 standards in 2007. In 2010 DSAK issued more exposure drafts and ratified 7 new standards and three interpretations. In 2011 DSAK continued to issue 16 standards and 8 interpretations, some of them are revision. By 1 January 2012, all IFRS as of 1 January 2009 has been effective except for IFRS 1 First Time Adoption and IAS 41 Agriculture.

Indonesia should have made formal decision in 2012 when they would fully adopt IFRS. However recently newly established Indonesian FSA made a public announcement that after adopting IFRS version 1 January 2009, Indonesia is not in rush to fully adopt current IFRS. Chairman of Indonesian FSA in his speech in front of IASB Chairman last March made it very clear that only a stable IFRS will be adopted by Indonesia (Hadad, 2013), which indicates that Indonesian Accounting Standard Board will only translate and adopt IFRS that has been ratified by IASB. Any non-standard output from IASB such as discussion papers or exposure drafts will not be circulated in Indonesia's stakeholders

6. Discussion

This section discuss' the international pressures toward the IFRS convergence process in Indonesia especially for the second period 2004-2012. Similar to other case study of developing country, coercive isomorphism is one of contributing factor for the adoption of IFRS. However, the mechanism for this international pressure to permeate, we argued, is through the institutional entrepreneurs who acted as the change agent for the accounting standard shifting.

6.1 Pressure from IFAC SMO, World Bank ROSC and G20

IFRS adoption, most of respondent believe, was inevitable as international body has recommended it. We identified three types of international pressures which jointly influenced the decision for IFRS adoption, in chronological order: compliance to IFAC Statement of Membership Obligation (SMO) in 2004, World Bank Assessment for ROSC in 2004/2005 and 2009/2010 and G20 commitment in 2009.

The pressure of IFAC SMO was mentioned by many respondents as the main reason of the IFRS adoption announcement by Ahmadi Hadibroto in 2004. In April 2004, IFAC Board issued Statement of Membership Obligation and stipulated in SMO No 7 and advised its member to incorporate IFRS in to member's national accounting requirement. SMO No 7 effective date was December 2004.

> *"Basically it is very simple. IAI is the member of IFAC. IFAC issued SMO mandatory to all members to adopt IFRS. So to me, if you are a member of certain organization, you have only two choices, follow whatever the requirements or you wait. That is the consequences if you are member an organization. Now, if we don' t fallow IFRS, we will be excluded from the accounting world. So definitely not a choice"* Ahmadi Hadibroto, interview 20th September 2012

Beside IFAC SMO, Indonesia also received pressure from ROSC first review 2005. Although ROSC report was issued in 2005, however the ROSC survey was sent months before to be filled by relevant stakeholders. This is confirmed by two respondents, Ahmadi Hadibroto and Hans Kartikahadi.

> *"I met World Bank consultant after the financial crisis, he assessed the financial report of our listed company and he gave harsh comments about the quality of our accounting standard which in his assessment did not comply with the international standard. I told him we actually have adopted IAS since 1994, but he said our adoption is not 100%, I replied back can you tell me which country complied with IAS 100%, and World Bank consultant was silenced."* Interview with Hans Kartikahadi, 3rd December 2012.

The confusion of World Bank in assessing Indonesian accounting standard might influence Ahmadi Hadibroto to decide a full convergence to IFRS. After 1994, although IAS was adopted, the subsequent revisions of IAS after 1994 were ignored by Board. Instead, after 1994, the Board issued many industry specific rule based standards which sometime refer to the US GAAP.

> *"I was asked by World Bank consultant when we will adopt IFRS. It brought pressure. Before ROSC 2005, there was a study as well by World Bank as well to*

benchmark Indonesian accounting standard and IFRS. I remember the result they said that our standard in general was benchmarked to the international standard but it's very confusing for them to assess because our numbering system is different and also the modification we made. They reached that conclusion after they read our standard one by one. So when the IFAC SMO was issued, I was thinking why not we adopted IFRS fully so it will be easier for external analyst to review our standard." Ahmadi Hadibroto, Interview 3rd December 2012.

Around 2009-2010, we documented two international pressures to IFRS convergence which are G20 recommendation and ROSC 2010 report. Indonesia as the only G20 member country in South East Asia are under international radar to comply with G20 recommendation. During its second summit in London April 2009, G20 issued a leader's statement with 29 recommendations to its country members. One of the recommendations to strengthen financial supervision and regulation was the adoption of IFRS.

to call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards. – G20 Leader's statement paragraph 15.

Indonesia voluntarily has been assessed by World Bank for the compliance of standards and codes in twelve areas. This assessment resulted Report on Observance of Standards and Codes (ROSC) which are available for the public from World Bank's website. Convergence to IFRS is one of the assessments of World Bank Consultant in the ROSC. Indonesia has been assessed twice, in 2005 and in 2010.

Indonesia may not be imposed by World Bank in the decision to adopt IFRS, however the pressure ROSC assessment was one of the factor of the convergence rush in 2009-2010. The assessment of ROSC 2010 started in August 2009 when IAI need to fill the survey sent by ROSC consultant in regard of accounting standard development. DSAK received a significant amount of pressure to finish some standards so it can be included in the ROSC assessment. ROSC assessment was included in DSAK agenda in several meeting from November 2009 – October 2010.

In the draft of ROSC Report as of 8 March 2010, World Bank assessment of IFRS convergence in Indonesia was slow. DSAK took this report seriously and discussed a response letter on their Board meeting on 27th April 2010 (DSAK minutes of the meeting, 2010). On 10th of May, DSAK sent a letter to Ministry of Finance to object of some of paragraph as ROSC failed to acknowledge the significant progress in the last six months. It was not easy to convince ROSC consultant, which should asses the period of 2005-2010, that significant progress has been made and need to be acknowledged in the report. The lobbying process continues through emails and meetings, resulted the delay of ROSC 2010 issuance to April 2011. As a result of heavy lobbying from DSAK, ROSC final report was published with revision more favorable to IAI, as detailed in table 2.

Insert Table 2 here

On 23-24 July 2009, IFAC held G20 Accountancy summit in London to compose IFAC recommendation for G20 September meeting. In this summit, IAI's Chairman Ahmadi Hadibroto who was also the immediate past chairman of AFA (ASEAN Federation of Accountants) delivered a presentation. In his presentation before IFAC summit, he affirmed

Indonesia's commitment to fully adopt IFRS by 2012. This statement to achieve 2012 target year has encouraged the acceleration of IFRS convergence by DSAK.

Indonesia's involvement in G20 also improved support from the Government. In 2010, Ministry of State Owned Enterprise (SOE) sent letter to all SOE's Director to require all SOE using PSAK (IFRS based standards) and prohibits SOE to apply SAK-ETAP (Standards for SME). This request from Ministry of SOE have encouraged SOE especially the listed SOE to create their roadmap in adopting IFRS.

The pressure from G20 and World Bank has been a strong argument for DSAK to convince the doubtful parties about the fitness of IFRS to the Indonesia business environment. "If G20 and World Bank have recommended IFRS and Indonesian leaders have committed to it, it is not question of why IFRS anymore, but more on the question how and when we will fully comply with IFRS. " those are common statement from DSAK's chairman and other DSAK members when they give public seminars about IFRS during 2009-2010.

6.2 The Role of Institutional Entrepreneur in the Indonesian IFRS Convergence

In this section we discuss the role of institutional entrepreneur to the IFRS convergence in Indonesia. For the IAS harmonization period 1993-1994 we identified one institutional entrepreneur: Hans Kartikahadi, the chairman of DSAK. For the period of IFRS convergence we identified two institutional entrepreneur: Ahmadi Hadibroto and Herwidayatmo. Ahmadi was the chairman of the IAI (2000-2010) while Herwidayatmo was the chairman of accounting standard advisory board (2007-2010) and former chairman of Indonesian SEC (2000-2005). For the period of 2009-2012, we identified Rosita Uli Sinaga, the current DSAK chairwoman as the institutional entrepreneur.

The decision to adopt IAS in 1994 was a collegial decision of the DSAK (at that time the name of the board was still a committee), however respondents mentioned the initiator for the swift from US GAAP to IFRS is the chairman of the Board, Hans Kartikahadi. Although the decision was made in 1993-1994 when Hans was not yet the chairman. Hans Kartikahadi proposed idea of adopting IAS to the Board's chairman, Prof. Wahjudi Prakasa, in the board's meeting which was then approved by other Board's members[6].

Hans Kartikahadi's role was not only initiating the change but also mobilizing resources. Hans Kartikahadi is the founding partner of one of first accounting firm in Indonesia, HTM, a member of Deloitte. During 1990s, IAI was not a well resourced association to fund the board activities properly, thus most of board expenses to develop the standard was born or loaned by Hans accounting firm.

> "*I remember every month I collect my monthly salary from HTM accounting office at Kaji Street and met Hans Kartikahadi's secretary. I am not sure if my salary came from IAI or from Hans personal fund*" Yosefa Sayekti, technical staff of the Board 1988-1992, interview 4 January 2013.

[6] Interview with Jan Husada, member of the Board 1990-1994.

35 IAS were translated and adopted in 1994 as a big bang approach. The process of translating and other due process were supported by two technical staffs who work for Hans accounting firm, seconded to assist the board. The board supposed to receive some funding from the World Bank however as the fund need to be allocated through Ministry of Finance then through the IAI, it took a long time to receive the grant. In the period of waiting for the grant, the board expenses such as meetings and public hearings were covered by Hans accounting firm.

> "*In 1993 (when the Board try to finish the IAS adoption), I told my firm partners that I need to be excused from the office to work on the standard development. I really appreciate my partners' understanding […] we actually received funding from the World Bank but the administration took a long time so I asked my firm's permission to fund the board expenses. Our firm eventually got reimbursement from the World Bank.*" Hans Kartikahadi, interview, 3 December 2013.

Not only provided financial support, Hans also actively persuaded the doubtful parties who disagree with the IAS adoption. Some of university professors who were strongly rejected the idea of IAS adoption and supported US GAAP were lobbied by Hans to join the accounting standard board. Those professors who were educated in the US Universities and have been taught accounting with US Text book were introduced to IAS and eventually at the end supported the adoption of IAS.[7]

If the DSAK chairman is the institutional entrepreneur for 1993-1994 period, the chairman of the IAI and the chairman of Accounting Standard Advisory Board (DKSAK) were identified for the period of 2004-2008. Ahmadi Hadibroto (Ahmadi) as the chairman of the IAI 2004-2010 was a very strong figure representing the accounting profession and the Institute. The first public announcement of IFRS convergence was December 2004 with the target year of 2008. The event was Biennial National Accounting Convention and the announcement. This commitment was recorded in World Bank ROSC 2005.

However after the announcement, Ahmadi found challenges in gaining supports from the stakeholders, including the accounting standard board its self to agree on the target year. Most of the Board members at that time are very skeptical about achieving the target year of 2008. There was series of negotiation between the IAI national council and the accounting standard board regarding the target year of IFRS convergence after that convention. In 2006 the target year was moved to 2010[8] but finally in 2007 the IAI council, the advisory board and the accounting standard board agreed to delay the IFRS convergence target to 2012.

> "*I have to admit; in 2004 the announcement was a little bit immature. We didn't realise how difficult it is to adopt IFRS.* " Ahmadi Hadibroto, 20th September 2012.

> "*I was worried the Board couldn't finish the project because everything seems business as usual. No extra effort or specific strategy on how to achieve the target.* " Member of the Board from Indonesian SEC in the interview, 10th January 2013.

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[7] Interview with Jan Husada, member of the Board 1990-1994.

[8] Two members of the Boards we interviewed remember that the target year moved twice.

"Even when the target was moved for the second time to 2012, I was the one who still feel skeptical. I believe that 2012 was still too soon. My estimation it should be reached by 2015" Member of the Board, Big Four Partner, in the interview, 9 December 2012.

December 2008, IAI managed to mobilize supports it needed to be able to make a bigger public statement "IFRS Convergence 2012". However, far from public spotlight, the 2008 big announcement was achievable due to series of lobbying by Ahmadi and Herwidayatmo to the various stakeholders. To avoid another embarrassment of missing the target year and to be able to firmly announce target year of 2012, Ahmadi knew that IAI need to secure support from the Indonesian SEC, sought funding and support from the three capital market SROs (Self-Regulatory Organizations) and political support ministry of finance.

Upon Herwidayatmo return from Washington, finishing his term as World Bank Executive Director for South East Asia in 2006, he was persuaded to lead the accounting standard advisory board in IAI. Herwidayatmo has a very strategic position as former chairman of Indonesian SEC and a strong network inside ministry of finance. During Herwidayatmo and Ahmadi informal meeting over coffee at Le Meridien Hotel, Jakarta in 2007, Herwidayatmo pushed Ahmadi to take a firm position of 2012.

"I am the one who pushed Ahmadi to announce 2012 as the target year for full IFRS convergence. I remember when we had coffee at Le Meridien Hotel, I told him we have to be confident. I shared my experience when I was the chairman of Indonesian SEC and executed scriptless trading, so many securities companies complained. Tough decision provoke controversies, but we just need to be firm. " Herwidayatmo – Interview 1 February 2013.

Ahmadi and Herwidayatmo met with Minister of Finance in 2007 to ask for support. Both gentlemen also lobbied capital market authority to support the IFRS convergence. They had meeting with the chairman of Indonesian SEC and secured funding support commitment from three Indonesian SROs for 2008-2012 IFRS convergence project. The funding was pivotal to support the Board in reaching its goal. With that funding from SROs, IAI was able to hired more technical staff to support DSAK and held more DSAK meetings, printed more exposure drafts books and hosted more public hearings and seminars.

Beside ministry of finance and central bank, IAI also secured support from central bank and ministry of education. Thus in the grand launching of IFRS convergence project at 23 December 2008, the event was well attended by government officials such as Minister of Education, Chairman of Indonesian SEC and the deputy governor of central bank. The event was widely broadcasted in the media and the snowballing effect took place immediately after the event. Many seminars, trainings and other public discussion were held since early 2009.

The support from the Central Bank was crucial to support the adoption of IAS 32 and 39 Financial Instruments in 2010. With one of central bank deputy governor sit in the accounting standard advisory board, and also one member of the accounting standard board from the central bank, IAI had a very strong support from the central bank for the IFRS convergence. Although the standards were delayed one year (they were supposed to be effective 1 January 2009), however without the strong support from the central bank, DSAK may need to delay again those standards to 2011 due to strong objection from the industry at the end of 2009.

The IFRS convergence in Indonesia started to unravel in 2009 with many parties were in doubt of DSAK abilities to finish the IFRS adoption in time. A delay of IAS 32 and IAS 39 at the end of 2008 was also a big defeat for DSAK and IAI. Stakeholders started to question the effectiveness of DSAK and if radical changes were needed.

The change of DSAK leadership in July 2009 has been pivotal to restore public confidence of IFRS convergence process in Indonesia. Jusuf Wibisana, senior partner of PWC was DSAK chairman for eight years since 2001 and succeeded by Rosita Uli Sinaga in 2009. Rosita was a partner for IFRS advisory in Deloitte and in 2007 she authored a book issued by Deloitte "IFRS and Indo GAAP: a Comparison 2007". Rosita has been passionate about IFRS and one of the volunteer member of working group when DSAK adopted IAS for the first time in 1994 (Kartikahadi, 2010). She was a prodigy of Hans Kartikahadi's, the former chairman of DSAK who decided to adopt IAS.

"The Board decision (to shift from US GAAP to IAS) was opposed by many people at that time because US GAAP was the dominant accounting standard in the world. However, due to DSAK persistent, at that time, the harmonization of IAS can be accepted. Thus in 1994 we have two volumes of standard handbook consists of 35 PSAK which is equal to IAS at that time. I am fortunate that I was involved in the process, supporting DSAK in the working team. " Akuntan Indonesia, August 2009,

Jusuf Wibisana, although never publicly opposing IFRS, has always been more supportive to the development of islamic accounting standard and accounting standard for SME. According to Jusuf, Indonesia should have accounting standard for SME (SAK-ETAP) before fully adopt IFRS to provide choices for SME and private companies. When SAK-ETAP officially issued in 17 July 2009, he promote SAK-ETAP as a set of standard which create reliable and relevance financial reports without being trapped in to IFRS complexity (Akuntan Indonesia, August 2009).

Subsequently upon her appointment, Rosita Uli Sinaga established a detail working plan for each working group to finish all IFRS in two years. The style of Board meeting changed dramatically. The typical of DSAK meeting under Jusuf Wibisana were relaxed, unstructured, full of humors, and relatively short, only two to four hours twice a month. With Rosita Uli Sinaga as the meeting leader, the meeting was more formal, the agenda was more structured and the decision making are more efficient. The meeting also took longer hours as the Board had more meeting over the weekend for two days. Her leadership and progressed was acknowledged in ROSC report 2010

…Since 2009, DSAK, under IAI, made substantial progress in trying to accelerate the convergence process, by dedicating full time staff and allocating workload to working groups with clear targets. However, they lack resources and there is no accountability if the target of full convergence by 2012 is not met. Hence it is important to set up a Financial Reporting Council with that responsibility. In the interim, the Government should provide all possible assistance to IAI DSAK on continuing towards full convergence. –World Bank 2010 ROSC on Accounting and Auditing, paragraph 71

Due to DSAK strong leadership, IAI gained more attention from IASB. In 2011 for the first time IAI hosted an IFRS international event, the IFRS Policy Forum in Bali. IASB also sent its Director for International Activities, Wayne Upton to have discussion with DSAK and also with the industry to discuss impediments of IFRS convergence. The discussion took twice on May and October 2010. Indonesia was also invited to become member of IASB working group for Emerging Economic which hold meeting twice a year. As a country with no funding donation to IASB, Indonesia's voice has become more dominant in the international arena than before 2009.

In our extended study, we also documented institutional entrepreneur in Philippines and Japan. In Philippines the institutional entrepreneur is not an individual but an accounting firm. SGV, the biggest accounting firm in Philippines has extremely dominant role in the IFRS convergence process in Philippines. The chairman for ASC has always been the managing partner of SGV since its first establishment in 1981. In fact for 28 years, ASC is chaired by one person, used SGV office for meeting[9] and supported by SGV staff as council's secretary[10]. The chairman of Philippines SEC who made commitment before IOSCO meeting in mid 1990s for IFRS 2005 full adoption, was also former partner of SGV.

A pro-IFRS institutional entrepreneur was also, presumably, one of key factor of IFRS convergence in Japan. Although Japan signed MoU with IASB in 2005 for IFRS convergence, the IFRS convergence process was intensified after Ikuo Nishikawa appointed as the new chairman in 2007. Arguably, Ikuo Nishikawa which was Japanese representative in IASC during 1993-1998 was more pro-IFRS than his predecessor Prof. Shizuki Saito. Prof Saito requested equality and refused to simply adjust Japanese GAAP in to IFRS.

"*Harmonisation with IFRS is undoubtedly important, but we stress that simply adjusting our standards to IFRS is not our goal of convergence.*" – Shizuki Saito,2007, pg 9.

Under Ikuo Nishikawa leadership, the relationship between ASBJ (Accounting Standard Board of Japan) and IASB was significantly improved. Ikuo Nishikawa became chairman of AOSSG in 2010, a very strategic position which is impossible to attain without IFRS Foundation's approval. In 2011, IASB decided to open an office in Tokyo to provide better service to their Asian country's adopter.

7. Conclusion

Indonesia offers an interesting case study for IFRS convergence process in Asia. From a US GAAP follower before 1994, Indonesia almost fully adopts IFRS to its local standard in 2012. The transformation from US GAAP in to an IFRS raised a question on what happened exactly behind the closed door of Indonesian accounting standard setter. This paper delineates reasons for the IFRS convergence as well as the process and the actors involved.

Although we did not find any coercive isomorphism for the decision to adopt IAS by Indonesia in 1994, we believe that coercive isomorphism existed in the IFRS convergence period in 2004-2012. The pressures from IFAC, G20 and World Bank have made Indonesian stakeholders accepted IFRS without reservation. The World Bank pressures also forced DSAK to accelerate the convergence process to produce a better report in ROSC 2010.

[9] Interview with former ASC chairman for 28 years (was managing partner of SGV), 15 February 2013

[10]) interview with current SGV partner who assist ASC as its technical advisor and secretary., 12 February 2013.

However, the role of institutional entrepreneurs in IFRS convergence process is too compelling to deny. These visionary individuals with strong social position have initiated the change, persuaded doubtful parties, mobilized resources and actively participated in the change process. One may argue that these institutional entrepreneurs in Indonesia, who happen to be partners from Big Four firms (except for Herwidayatmo), brought their firm commercial motives. That argument, however, is out of scope of this research.

Institutional entrepreneur role for IFRS diffusion in developing countries has been overlooked by existing literature. This case study of Indonesia demonstrates that the efforts and activities of institutional entrepreneurs for institutionalizing IFRS cannot be simply ignored. Without this agent of changes, no matter how strong the pressures from international bodies, the change may never substantiate. IAI Chairman has attempted to make a change since IFAC recommended IFRS in 2004, however it was not until Herwidayatmo, another institutional entrepreneur with a better political alignment, joined IAI advisory board, that the IFRS convergence can be re-launched in 2008.

Even after the political support and funding were secured, IFRS convergence process in Indonesia almost unraveled in 2009 due to resistance from the banking industry. Without a strong leadership of Rosita Uli Sinaga in DSAK, another institutional entrepreneur, Indonesia may need to swallow another embarrassment of failing to meet the 2012 target year. Indonesia should decide in the near future if they will follow their neigbour countries such as Philippines, Australia and Singapore who adopted IFRS without carve outs. Or Indonesia will maintain its indecision while observing of the development of IFRS convergence in the US and Japan. Nevertheless such major decision lies on the hand of institutional entrepreneurs in the country.

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Table 1 Indonesian Regulatory Bodies and Their Function

Agency	Function
The Indonesian Institute of Accountants (IAI)	• Set Financial Accounting Standards • Provide Continuous Professional Education • Provide qualifications for those who wants to work in financial management and accountancy
The Indonesian Institute of Certified Public Accountant (IAPI)	• Set Auditing Standards for Public Accountants • Set Professional Code of Ethics for Public Accountants • Conduct Public Accountant Certification Examination • Provide Continuous Professional Education for public accountants
Capital Market Supervisory Agency (Bapepam)	• Set and enforce Capital Markets rules and regulation • Establish disclosure principles for Issuers and Listed Companies • Set Standard, norm, guidance on criteria, procedures and implement those in financial institution sector
Directorate General of Taxation (DJP)	• Set and enforce taxation rule and regulation • Set Standard, norm, guidance on criteria, procedures in taxation.
Center for Supervision of Accountants and Appraiser Services in MoF (PPAJP)	• Prepare the formulation of policies in fostering public accountant profession and public appraisal • Supervise public accountant and public appraisal services and present information thereon.
Central Bank (Bank Indonesia)	• Regulating and supervising national banking system • Set Standard, norm, guidance on criteria, procedures and implement for banks (private bank, rural bank and Islamic bank.)

Table 2 Comparison between ROSC Draft and ROSC Final

ROSC Draft as of 8 March 2010	ROSC Final as Published in World Bank Website
Indonesia's program of converging PSAK with IFRS has been very slow due to inadequate resources at the disposal of the Financial Accounting Standards Board. The progress of issuing IFRS-based PSAK is quite slow mainly due to the fact that the DSAK finds it difficult to catch up with the growing number of new and revised IFRS and interpretations issued by the IASB…	**Indonesia's program of converging PSAK with IFRS was slow in the past due to inadequate resources at the disposal of the Financial Accounting Standards Board.** However, a serious effort was undertaken by the Financial Accounting Standards Board to expedite the convergence process in 2009. By March 31, 2010 the Board had significantly reduced the gap between local standards (PSAK) and IFRS by revising 15 standards and revoking 15 non-IFRS based standards. The progress of issuing IFRS-based PSAK is quite slow mainly due to the fact that the DSAK finds it difficult to catch up with the growing number of new and revised IFRS and interpretations issued by the IASB...