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FINANCIAL REPORTING PRACTICE AS A RITUAL: UNDERSTANDING ACCOUNTING WITHIN INSTITUTIONAL FRAMEWORK

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ABSTRACT

This study is aimed is to understand a ritual in financial reporting practice of a single company, and how institutional theory is useful to explain such ritual through institutionalized isomorphism. Ontologically, this study is built on a belief that financial reporting practice is an institutional practice concerning the supply of information. As such, this study employed interpretive paradigm and was conducted in an insurance company, as a research setting. To improve the credibility of the research findings, the data were collected from interview, observation, and document analyses which were manually analyzed using a method suggested by Marshall and Rossman (1999) and Seidel (1998). It reveals that financial reporting practice has been perceived by organizational members of PT ABTBK as an institutionalized routine that becomes a ritual in the company. Financial reporting practice is seen as a ritual of constructing and delivering information to an audience using "a holy guidance of ceremony" (regulations, law, standards and procedures). In doing so, the company employed three institutionalized isomorphism as explained by the institutional theory. It advocates that financial reporting practice of the company is a socially-dynamic process that is not value free, but rather a socially constructed reality.

Key words: *financial reporting, ritual, institutional theory, interpretive inquiry, insurance company.*

INTRODUCTION

Studies on financial reporting have been dominated by the positive accounting research paradigm which is aimed at explaining and predicting how self-interested individuals behave when facing economic consequences of particular accounting issues (Holthausen 1990; Watt and Zimmerman 1986). However, the studies produced different results. Unfortunately, they did not provide conclusive and convincing explanations for such different findings. (see Beasley 1996; Beasley, et al. 2000; Chen and Jaggi 2000; Dunn 2003; 2004; Forker 1992; Goodwin and Seow 2002).

So far, the current research in accounting has been referred to the fact that actors' behaviour is modified by procedures, rules, incentives, and other economic factors. Most research recently has been in such fact but ignored the institutional, political and cultural environment in which financial reporting practice takes place. For that reason, studying financial reporting within its environmental contexts (institutional context) has emerged in accounting literature (Adams 1997; Gray 1988; Rezaee 2002; Miller 1994; Munro 1998). Again, what has been studied in accounting is how power and institutions influence individual behaviour in decision making within a management accounting framework (Bartlett 1980; Covaleski and Dirsmith 1986; Pfeffer and Salancik 1974. What is missing from the previous studies is research into the institutional aspects of financial reporting practice of an organization.

Studies on financial reporting practice from the perspective of institutions can enhance previous ones by focusing on technical and economic issues. Cooper (1980), Tinker (1980) Neu (1992) Geriesh (2003) and Cohen, et al. (2004) suggest that the scope of accounting research should be broadened beyond traditional positivist investigations with its technical-efficiency focusing on social and political phenomena. These are also shared by Hopwood, et al. (1994: 228) stating that the existence of accounting is determined by culture, customs, norms, and institutions. As Guthrie and Parker (1990: 166) argue, accounting reports "serve as a tool for constructing, sustaining and legitimizing economic and political arrangements, institutions and ideological themes".

Based on the above arguments, this study claims that financial reporting practice is an institutional practice concerning the supply of information. This study is conducted in an insurance company and aimed to seek answers of the following questions: how organizational members of a company understand financial reporting practice and how the company responds to institutional pressures.

INSTITUTIONAL THEORY AS A LENS OF UNDERSTANDING

Institutional theory of organizations provides a rich and complex view of organisations. In addition, it can also explain how organisational structures and individual behaviour are influenced by the cultural, political and social forces surrounding organisations (Fogarty 1996 and Zucker (1987). For that reason, an organisational structure can be seen as reflections of rationalized institutional rules (Meyer and Rowan 1977: 340), or shared knowledge of belief systems (Scott 1995: 13).

Within the framework of institutional theory, there are two principles that should be understood. First, institutional theory is based on a belief that the institutional environment is socially constructed. This means that the institutional environment can shape individual behaviour and be shaped by individuals acting within the environment. Indeed, the institutional environment is a human fabrication (Berger and Luckmann 1990; Brunsson and Sahlin-Anderson 2000; Carruthers 1995; DiMaggio and Powell 1983; Meyer and Rowan 1977). The way of thinking and individual behaviour can be used to shape programmed actions (Berger and Luckmann 1990) and to generate common responses to a situation (Mead 1934). Second, institutional theory views organisations as open systems. This means that the external environment and actors within organisations play roles in shaping organisational structures and activities (Scott 1987; Selznick 1957; 1966). Smircich (1983a) also contends that environments, as external variables, influence organisations. For Smircich (1983a, p. 353), an organisation is a particular form of human expression in which the organised social world has "much less concrete structure...[existing] only as a pattern of symbolic relationships and meaning sustained through the continuous processes of human interaction".

For institutional theorists (for example, Meyer and Rowan 1977), institutional orders such as rules, norms, traditions and requirements are frequently used to sustain appearances that eventually help to generate legitimacy of a certain organisation, rather than generating efficient decisions or results of the organisation. Theses rules, norms, traditions and requirements are recognised as institutions.

Scott (1995: 33) theorizes that in an organisational context, institutions are defined as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour". The reason for organisations to adjust to institutional pressures is to avoid external claims of irrationality and negligible behaviour. Furthermore, organisational conformity to the pressures is directed to gain legitimacy and enhance resources for their life prospects (Carruthers 1995).

DiMaggio and Powell (1983) developed a scheme of classification to identify a mechanism that drives organisations to gain legitimacy and enhance resources for their life prospects (institutionalised isomorphism): coercive isomorphism, mimetic isomorphism and normative isomorphism.

Coercive isomorphism takes place when the organisation changes in response to pressures from other organisations on which the changing organisation strongly depends for resources and support (DiMaggio and Powell 1983). Tolbert and Zucker (1983) argue that when an organisation operates in a wider network, the legitimated changes in the more powerful organisations provide a pressure to change on the dependent organisation. In other words, power is a central variable in the coercion (Scott 1995). An example of a coercive mechanism is the case of public organisations on which a pressure to comply with other institutions occurs when survival of one department strongly depends on resources and support of other government departments (DiMaggio and Powell 1983; Meyer and Rowan 1977). In financial reporting practice, an example of coercive isomorphism is the mandatory requirement of companies to obey accounting standards as promulgated by authoritative bodies when the companies want to raise capital through capital markets.

Mimetic isomorphism is driven by uncertainty and imitation processes. In other words, mimetic isomorphism takes place when an organisation is facing a high level of uncertainty. Uncertainty about organisational technologies, goals and environmental expectations often force organisations to imitate other organisations. Carruthers (1995) claims, that organisational fashion are likely to spread through this mimetic isomorphism. In social life, organisations tend to copy models of operation from successful companies and to be receptive to fashionable business techniques to protect them from uncertainty (Abrahamson 1996; Granlund and Lukka 1998). Such organisations homogenise or imitate themselves to other organisations that are believed to be legitimate or successful for the purpose of survival or to reduce uncertainty (see Baldridge 1977; DiMaggio and Powell 1983; Tolbert and Zucker 1983). An example of mimetic isomorphism in financial reporting practice is the tendency of one company to imitate another company's financial disclosure by disclosing social and environmental information in financial reports (see for example Deegan and Gordon 1996; Patten 1992).

The last institutional isomorphism is ***normative***, which is based on a premise that organisations change because of the process of professionalism. Indeed, professions play an important role in the diffusion of similar orientations and dispositions in determining organisational behaviours. This process occurs through two mechanisms: a transmission of norms by professionals and the development of professional networks (DiMaggio and Powell 1983). The process of normative isomorphism can be seen in accounting practices employing a number of accounting methods, techniques and principles to manage organisations in accordance with what has been learned from accounting education and training. Thomas (1989) claims that to deal with environmental uncertainties, a company will rely on professional specialists, such as accountants and auditors

RESEARCH METHOD

This study argues that financial reporting practice is an institutional practice concerning the supply of information of a certain entity. By considering the social and political context, Cooper and Sherer (1984, p. 225) suggested as the following.

Accounting research should *be explicitly normative*—make your value judgment explicit; *be descriptive*— describe and interpret the practice of accounting, accounting in action; and *be critical*—recognise the contested nature of the accounting problematic and particularly the concept of the public interest [original emphasis].

Based on the coherence between ontology, epistemology, and human nature assumptions, this study was designed with an interpretive method of inquiry and was conducted in an organisational setting, as also suggested by Nahapiet (1988). This study employed *PT. ABTBK*—a national insurance company listed on the Jakarta Stock Exchange since 1989—as a research setting. The reason for using the company is that insurance business in Indonesia is highly regulated—not only by accounting standards, but also other regulations released by the Jakarta Stock Exchange, the Indonesian Capital Market Supervisory Agency (*Bapepam*) and the Ministry of Finance-Republic of Indonesia. Furthermore, *PT. ABTBK* can be considered successful in implementing a corporate governance mechanism, especially in the transparency aspect. Annual report awards received by the company since the 1980s are evidence that the company is an example of the company that practises good financial reporting in Indonesia, especially in the insurance industry.

This study mostly implemented interviews for data collection. However, to improve the credibility of the research findings, this study also employed observation and document analysis. A combination of such methods enabled the researcher to describe, interpret, and analyse the financial reporting practice of *PT. ABTBK*.

In qualitative research, there is no single approach to analyzing data. The choice of methods is largely dependent on research questions (Baxter and Chua 1998); and research strategies (Glaser and Strauss 1967). In connection with the research questions, the data were manually analyzed using a method suggested by Marshall and Rossman (1999) and Seidel (1998). They (1999) proposed six general phases of data analysis referring to data reduction and interpretation. In line with data reduction, the steps of analysis include organizing data, generating categories, themes and patterns, and coding them. Besides that, interpretation is undertaken through the following steps of analysis: searching for alternative explanations, and writing the report.

Based on the steps of analysis in qualitative research, data analysis cannot be isolated from data collection. When the initial data were collected from interviews, observation and archival sources, data analysis was immediately conducted to decide on subsequent data collection. This process runs continuously to make results and findings more credible. To quote Seidel (1998, p. 2), qualitative data analysis is an iterative and progressive process involving a harmony of "noticing, collecting and thinking about things or events". In line with Stake (2000), institutional theory and evidence gathered from the research setting were utilized to interpret and explain data.

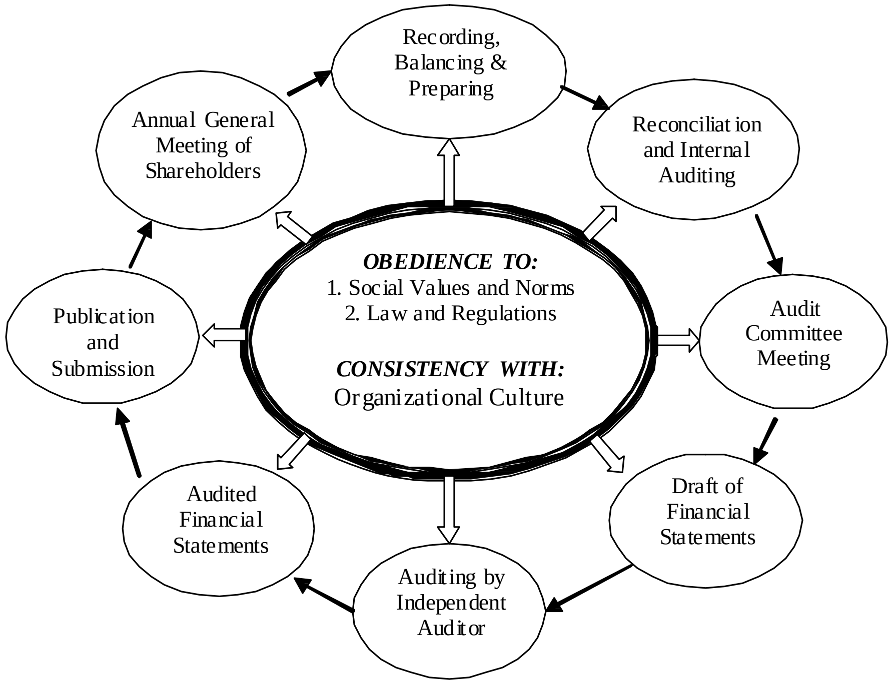
FINANCIAL REPORTING PRACTICE IN *PT. ABTBK* AS A RITUAL

Financial reporting practice, as a part of an organisational reality, can be seen as institutionalised practice. This is because an organisational actor can construct such practice by obeying institutional rules and regulations. This socially constructed practice becomes a routine within the organisation because it is accepted by its members and it is finally embedded in the organisation. To quote Scapen (1994, p. 306), routines are as follows.

> …formalized or institutionalized practice [and] institutions can be seen as imposing form and social coherence upon human activity, partly through the continuing production and reproduction of habits of thought and action.

When such a routine is institutionalised and embedded in the organisation, it becomes a ritual. A ritual denotes a ceremony that is performed in the same way, or something that is performed regularly and in the same way each time (*Oxford English Dictionary*). However, in relation to organisational culture, rituals are routines performed on a regular basis that help to reinforce organisational beliefs and values (Heery and Noon 2001). Based on such an argument, a

Figure 1
A Ritual in Financial Reporting Practice



financial reporting practice is a ritual of constructing and delivering information to an audience. This is consistent with arguments by Burchell et al. (1980) and Miller (1994) who believes that accounting has been institutionalised both on a societal and an organisational level.

In the case of *PT. ABTBK*, it can be seen that financial reporting practice is a ritual involving daily activities of identifying, measuring and recording of transactions/events, and finally, communicating information to other parties in a systematic and repeated way. For *PT. ABTBK*, the pivot of conducting rituals in regard to the financial reporting process is obedience to social values and norms as well as law and regulations. Moreover, in conducting such rituals, each activity must be consistent with *PT. ABTBK*'s organisational culture. Such obedience and consistency are concerned with a particular set of accounting standards and other rules or regulations set by the company or other institutions. Figure 1 show how financial reporting practice is seen as a ritual in *PT. ABTBK*.

As in Figure 1, a financial reporting practice is associated with the production of periodic financial statements. Within this practice, there is a host of working ceremonies involving a number of people and institutions. First, transactions or events are identified, measured and recorded in the journal. All ledgers are then balanced to result in the agreed control accounts. Mr I and Mr K in the Accounting Division described that when financial reports are received from branch offices, accounting staff in the head office, who are responsible for branch accounts, reconcile branch office accounts with the accounts of the head office and ask for approval from the head of the Accounting Division. Next, trial balances are extracted and period-end journals are entered. Finally, the staffs in the Accounting Division draw up final accounts.

During these activities, from the identification of transactions to the drawing up of final accounts, the internal auditors of *PT. ABTBK* conduct internal auditing processes to ensure that all transactions are measured and recorded in accordance with any rules and regulations and to confirm that an internal control mechanism works well. Any findings regarding non-compliance with regulations and internal control principles are discussed by the head of the Internal Audit Unit with the audit committee along with the Board of Directors. This ritual will produce a draft of financial statements.

As *PT. ABTBK* focuses its financial reporting practice on public accountability, the company appoints an independent auditor to ensure that its financial statements are fairly presented in accordance with generally accepted account the staff in the Accounting Divisions and internal auditors are involved in another ritual with the independent auditor. All stock exchange requirements and requirements by the Minister of Finance are examined and the external auditor must be satisfied of their soundness. Any findings during auditing are discussed and resolved in a meeting involving the external auditor, internal auditors, audit committee and the Board of Directors. This will result in a draft audit opinion. This draft is then discussed by the external auditor with the audit committee and the Board of Directors. After a consensus among staff involved in this discussion is reached the audited financial statements are produced for publication.

All these frantic activities eventually culminate in announcement of annual reports to the stock market (the Jakarta Stock Exchange) and in the presentation of the annual reports to the annual general meeting of shareholders (AGMS). Here, a series of tight reporting deadlines must be met. *PT. ABTBK* must submit annual reports to *Bapepam* and the Jakarta Stock Exchange within 120 days of the end of its financial year[1].

The company is also required to submit annual reports to the Department of Trade and Industry within 180 days of the end of its financial year. *PT. ABTBK* must also attach a copy of annual reports when it lodges tax returns to the tax office. In addition, *PT. ABTBK* must submit their annual reports for the period ended 31 December to the Minister of Finance by 30 April of the following year. Forms and structures of the reports are as determined in the Decision of the DGFI, Number 1298/LK/2000. Most importantly, *PT. ABTBK* must publish financial statements in two national newspapers. Thus, timeliness is of the essence.

In line with the AGMS, *PT. ABTBK* has allocated significant resources to the meeting. The AGMS is used as an arena for discussing historical performance, the company's future, management capabilities and approval of financial statements by shareholders. The AGMS can be seen as a conventional formality. During this meeting, little real business might be conducted or decisions that have not already been discussed and settled might be taken. This meeting usually takes place in July after the end of the company fiscal year. Activities in the AGMS will eventually create other transactions that are required to be identified, measured and recorded as the first step of financial reporting practice.

Within financial reporting practice, there is a repetition of working activities strongly associated with traditions and rituals. Such rituals involve actors, time and place, repeated actions, and "a holy guidance of ceremony" (regulations, law, standards and procedures). In addition, it is interesting to consider that the ritual in financial reporting practice involves a physical meeting at a given place and time, despite the increased globalisation of corporations and electronic communications of the current era.

The description of financial reporting practice of *PT. ABTBK* shows that financial reporting is an institutionalised practice that is socially constructed and eventually becomes a ritual in the company. In this regard, most of the employees in *PT. ABTBK* dealing with the preparation and publication of annual reports see their jobs as routines

[1] In 2002, through the *Bapepam* Regulation No. X.K.2 *Obligation to Submit Annual Reports,* the period of submission is shortened to 90 days after the end of company's financial year.

and part of their rituals. For example, the head of the Internal Audit Unit of *PT. ABTBK* claimed as the following.

Financial reporting is a routine activity. However, it should be noted that a financial report is not only concerned with historical events, but also concerned with the future. In the new regulations, *Bapepam* insists that if an insurance company is unable to achieve targeted results, the company must publish a special report to accompany the audited financial report. This becomes our routine

Another employee in the Accounting Division of *PT. ABTBK* (Mr C) confirmed as follows.

My job is to ensure that all transactions are presented according to Indonesian accounting standards and financial reports comply with regulations issued by *Bapepam* and the Minister of Finance. I also provide back-up for urgent information required by the Board of Directors

Such statements imply that financial reporting practice is a ritual, and most of the activities in such a ritual concern compliance to any socially imposed beliefs and norms, as well as adherence to the governing regulations. Such a ritual has been employed by *PT. ABTBK*'s actors to construct financial reporting as a rhetorical story for social harmony as discussed in Chapter Six.

What has been practised in *PT. ABTBK* is consistent with the claims that accounting procedures that are viewed as rational and efficient by society have been used as a medium to legitimate organisational operations and to secure their survival (Ansari and Euske 1987; Burchell, et al. 1980; Carruthers 1995; Covaleski, et al. 1996; Markus and Pfeffer 1983; Miller 1994). In addition, to anticipate uncertainties, organisations can adopt certain financial reporting practices by imitating those practised by other companies or implementing procedures and regulations issued by authoritative bodies and professions. This view indicates that financial reporting practice, as a part of an accounting system, is symbolic and ritualistic (March and Olsen 1989; Meyer and Scott 1983). What can be inferred here is that in the existing environment, financial statements as products of an accounting system can shape and be shaped by organisational actors and other institutions within which the company's activities take place (Mouritsen 1994).

The professionals and authoritative bodies that construct the institutional environment such as faiths, rules and institutionalised roles (Meyer and Rowan 1977) can be seen as sources of complicated rules and frameworks of institutionalised behaviour. Within institutional theory, these rules and frameworks are perceived as rationalised myths, and are utilised as a means of legitimisation. Consequently, financial reporting practice is viewed as a device of legitimisation within the social environment. As such, through the process of isomorphism, actors can construct financial reporting practice to produce a rhetorical story of a company's activity for the purposes of gaining legitimacy and maintaining social harmony. How *PT. ABTBK* responds to institutional pressures can be seen in the following section.

INSTITUTIONAL ISOMORPHISM IN FINANCIAL REPORTING

Institutional theory explains that organisational structures and procedures are shaped by the social environment. Organisations, as Meyer and Rowan (1977) suggest, tend to be homogenous in their practice through a process of isomorphism to reflect rationalised rules. In line with financial reporting practice, because of the environmental pressures, commitment of an organisation to quality financial reporting practice could be a result of isomorphism.

Coercive Isomorphism

Coercive isomorphism refers to pressures to obey rules and regulations issued by authoritative bodies or organisations. These pressures are characterised by means of authority and coercive power. Regulations issued by *Bapepam* and the Minister of Finance are examples of pressures in financial reporting practice in Indonesia. Thus, as Fliegstein (1990) maintains, the influence of the authoritative bodies, such as government agencies, by means of rules for companies, need not be demonstrated any more.

PT. ABTBK is responsive to the institutional pressures that come from regulations. Indeed, an employee in the Accounting Division (Mr A) clarified that "…changes in accounting policies are usually caused by new regulations". Moreover, an ex-external auditor who is currently employed by *PT. ABTBK* (Mr C) asserted as the following.

> ...financial statements must be...fairly presented in accordance with accounting standards and any regulations...It is the regulations that determine the statements

This statement indicates that *PT. ABTBK* has actively responded to financial reporting changes if a regulator issued new rules, procedures or regulations. Compliance to all governing regulations has been seen as a part of *PT. ABTBK*'s corporate culture. In regard to this, Mr F in the Accounting Division expressed his pride in *PT. ABTBK*. He said:

> If I compare to the company I worked before, annual reports of *PT. ABTBK* are the best. I mean, *PT. ABTBK* always complies with regulations. If new regulations are issued, *PT. ABTBK* will directly implement the regulations. For me, a quality financial report is a report that is presented according to regulations...Thus, we must obey the regulations when preparing financial reports even though the bottom line is minus [loss]. During my time here, I never hear that *PT. ABTBK* disobeys regulations.

This statement can be interpreted as meaning that obedience to regulations is a non-negotiable culture in *PT. ABTBK*. All employees must either take it or leave it. Another statement also confirms such interpretation. Mr E, in the Accounting Division, who has worked at *PT. ABTBK* more than 25 years, claimed:

> The reason why this company has been awarded the annual report award is that we always obey all regulations. We always do what the regulations ask us to do.

In regard to the reason why *PT. ABTBK* enjoys complying with regulations, it is interesting to consider a statement by the head of a branch office (Mr H) whose office is located far from the head office. He highlighted:

> The reason why *PT. ABTBK* obeys the regulations is that compliance with regulations makes us so comfortable in conducting business and makes us feel free in conducting business. We can also reduce the negative impact of conducting business by obeying regulations.

The words "comfortable", and "negative impact" can be interpreted as meaning that *PT. ABTBK* has directed its organisational culture to the maintenance of social harmony. The company also perceives that external pressures on financial reporting practice comes from users.

Users, such as shareholders and financial analysts, although they are not directly involved in daily organisational activities, have been suspected of playing a role in shaping financial reporting practice. This is because they have interests in the numbers contained, and information disclosed, in annual reports. This argument can be seen from the story of *PT. ABTBK* when it published financial statements (the *Bapepam* version) in a national newspaper without being supplemented with a report according to the version of the Minister of Finance.

Soon after the publication, financial analysts in the *InfoBank* magazine No. 304 July 2004, classified *PT. ABTBK* as an insolvent company and placed the company under pressure. In response to this pressure, the

Board of Directors sent a letter (No. 173/SK/Pres.Dir/AS/VII/2004 dated 9 July 2004) to the publisher of the magazine, claiming that such a classification was not true. The letter also explained the differences in financial ratios calculated under the two different versions of financial statements and showed that *PT. ABTBK* was not insolvent.

Financial reporting practice in *PT. ABTBK* is consistent with a claim that environmental pressures from investors tend to increase when they are reinforced by the demands of information made by financial analysts. According to Williams (1996), this is because the decisions on investment are, to some extent, made on the basis of the financial analysts' forecasts.

Mimetic Isomorphism

Mimetic isomorphism occurs when an organisation is facing a high level of uncertainty. Accordingly, uncertainty about organisational technologies, goals and environmental expectations often force organisations to imitate other organisations. In order to support a commitment to quality financial reporting practice, it is not hard for *PT. ABTBK* to copy the ethical practice of financial reporting of other companies. This can be seen from statements by organisational members of *PT. ABTBK*. For example, Mr C in the Accounting Division understands how *PT. ABTBK* is flexible in imitating practice by other companies. He claimed,

> I think *PT. ABTBK* is very flexible in responding to environmental changes. It is not difficult for *PT. ABTBK* to adopt ethical business practices conducted by other companies. This is very good, especially for the implementation of good corporate governance. *PT. ABTBK* also responds quickly to new regulations or methods issued by authoritative bodies.

Similarly, the Director of Administration Services highlighted as the following.

> …to imitate what other companies have practised is not a problem for *PT. ABTBK*. Indeed we can copy their practices as long as such practices are concerned with an ethical business. This is because we want to make this company better and more ethical in the way it does business.

The Director of Financial Services also identified the importance of copying ethical practice in financial reporting for the purpose of increasing the quality of transparency in Indonesia, even though such practices come from other countries. He affirmed:

> We know that the demand for transparency of the Indonesia business is very high. The current news in *Business Indonesia* [a national newspaper] showed that transparency of Indonesian companies was the lowest among other countries. So, if one day I might want to apply the requirements stated in the Sarbanes Oxley Act to my company's annual reports, even though it is an American rule and it might be difficult to apply.

A number of media can be referenced by *PT. ABTBK*'s staff if they want to better understand the financial reporting practices of other companies. These include workshops and stories by members of the audit committee. In this regard, it is useful to consider a statement by Mr A, who has worked at *PT. ABTBK* for more than 25 years. He said that:

> …copying procedures or practices of financial reporting by other companies are not a problem for *PT. ABTBK* as long as such adoption is intended for more ethical purposes. An opportunity to attend seminars or workshops is a medium for understanding what other companies do.

In addition, the head of Internal Audit Unit agreed with the adoption of financial reporting practices conducted by other companies. He said as the following.

> I think *PT. ABTBK* does not mind adopting other company practices. The Audit Committee, for example, consists of members from other institutions with an accounting background. They provide me with a number of good practices as a benchmark....In certain cases; they provide some solutions by referring to practices of other successful companies, including practices of transparency.

How *PT. ABTBK* has copied other companies' practices is consistent with claims in the accounting literature. For example, a study by Neu (1992) indicated that financial reporting in an industry was seen as an influence of mimetic order. Neu's (1992) work confirmed that one company published more frequent forecasts of profits because other companies in the same industry (the mining sector and the financial institutions sector) published similar forecasts. Another example of mimetic isomorphism in financial reporting is the tendency of a company to imitate another company's financial disclosure by disclosing social and environmental information in financial reports (Deegan and Gordon 1996; Patten 1992). The tendency to imitate the practice of other companies is mostly conducted to gain legitimacy.

Normative Isomorphism

Institutional analysis also encompasses the role of professions and professionalism (Meyer and Scott 1983; DiMaggio and Powell 1983). Within business activities, professionals prescribe practices, and these are adopted because they are prescribed. In relation to normative isomorphism, to some extent, *PT. ABTBK* has also relied on financial reporting practice prescribed by professions. Indeed, *PT. ABTBK* has appointed two foreign consultants especially to develop information technology to support a reporting mechanism. In this regard, the Director of Administration Services clarified as the following.

> Most activities in this company have been supported by professional consultants...We have also employed two foreign consultants. The reason for hiring the foreign consultants is their experience in the insurance business and information technology. It is difficult to find an Indonesian consultant who understands both the insurance business and information technology. Thus, experience and skills in the insurance business and information technology are the main reasons for hiring foreign consultants.

Another profession that is seen as a key critical factor in influencing quality financial reporting is external auditing. An employee in the Accounting Division (Mr A) explained that,

> The financial statements of *PT. ABTBK* are complete and reliable...because such statements have been audited by an independent auditor with a good reputation. So, for me, this auditor is the determinant of quality financial reports. And I believe that what has been done by the auditors to make financial statements in accordance with requirements by regulations are the way we can use to assess the quality of financial reports.

The Director of Administration Services also confirmed the importance of external auditors in ensuring quality financial reporting practice. He said as the following.

> I think collusion between the external auditor and the client might occur. It is not easy to avoid this possible collusion. This has occurred in our society. To avoid such collusion, *PT. ABTBK* always appoints the big five firms. We believe that the big five are more credible than other audit firms. The big five firms are more accountable and I believe

> that...the external auditor provides a significant contribution to the quality of financial reports...It is the role of the auditor to judge whether we comply with rules and regulations. (My translation)

Normative isomorphism in *PT. ABTBK* is consistent with a claim by DiMaggio and Powell (1983) who point out that normative isomorphism arising from strong professional norms in an organisational field will create a tendency for organisations to resemble one another in their structure and process. These norms are transmitted to organisational practices by the process of authorisation (Scott 1995). Thomas (1989) also claims that to cope with environmental changes and uncertainties, a company will rely on professional specialists, such as accountants and auditors, who will exert their influence on corporate strategy, including disclosure decisions.

Reasons for Isomorphism

From the previous description, it is obvious that two explanations can be used to justify why organisations tend to become isomorphic with their environments. These reasons are related to the two basic assumptions of institutional theory (Meyer and Rowan 1977). The first is that organisations are open systems, which become harmonised with their environments through several exchanges and technical interdependencies. DiMaggio and Powell (1983: 73) explained as follows.

> ...each of the institutional isomorphic processes can be expected to proceed in the absence of evidence that it increases internal organisational efficiency. To the extent that organisational effectiveness is enhanced, the reason is often that organisations are rewarded for their similarity to other organisations in their fields. This similarity can make it easier for organisations to transact with other organisations, to attract career-minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for public and private grants and contracts. None of this, however, ensures that conformist organisations do what they do more efficiently than do their more deviant peers.

The second reason is related to the fact that the institutional environment is a socially constructed reality, which is reflected in organisational structures. This implies that organisations are viewed not only as institutions in themselves, but also as products of their institutional environments. Institutionalized rules that function as "myths" (Meyer and Rowan 1977) are absorbed by organisations to conform to their environment. Those "myths" are rational and impersonal prescriptions, which are highly institutionalized. They also frequently identify social purposes as technical ones. To the extent that rules are considered proper, adequate and rational, organisations must incorporate them to avoid illegitimacy (Meyer and Rowan 1977). The incorporation of legitimized elements boosts the commitment of internal participants and external constituents to organisation's actions, and protects them from having their conduct questioned

Institutional Theory and Accounting Practice

The above finding shows that the relevance of institutional theory in understanding the dynamic of financial reporting practice can be related to the notion that accounting is an institution that is socially constructed by individuals, within organisations and outside organisations (Hines 1988; Miller 1994; Hopwood 1994; Munro 1998). Such construction involves different dimensions of behaviour and institutional environments. Hopwood (1994, p. 228) contends that,

> ...*accounting* is intimately implicated in the construction of facilitation of the contexts in which it operates. It cannot be extracted from its environment like

> an individual organism from its habitat...As a social institution, accounting is integrated into customs, values, norms, beliefs accepted in a society...The existence of accounting is determined by culture, customs, norms, and institutions [original emphasis].

Consequently, it has been claimed that "accounting is no longer a neutral device that merely documents and reports the 'facts' of economic activity" (Miller 1994, p. 1). In addition, Munro (1998, p. 201) maintains that "accounting numbers do not simply appear by virtue of their collection and collation; they are *socially constructed"* [original emphasis].

These arguments signify that accounting is an institutional practice that should be understood within a framework of institutional theory. For this, it is useful to consider a view by Ball (1989, p. 1), who contends that,

> accounting and auditing are institutional phenomena, so it is reasonable to assume that they derive many of their properties from the nature of firms as economic institutions. Progress in understanding accounting and auditing, at all levels of abstraction from broad conception of their economic function through to understanding of the reasons for specific accounting and auditing techniques, seems likely to require a theory of the firm that views institutional phenomena as its domain…(Seal 1993: 27).

Antle (1989: 103) also remarks that "accounting institutions are the institutions that surround the production and dissemination of financial information both across and within organisations". This argument is based on the notion by Schotter (1981) that a social institution is regularity in social behaviour that is agreed to by all members of society, specifies behaviour in specific recurrent situations, and is either self-regulated or regulated by some external authorities. Scapen (1994) also insists that institutional theory can be used to understand accounting practices because the theory offers an insight into the relationship that exists between accounting and other social institutions.

In addition, Mouritsen (1994, p. 196) highlights that institutional theory plays a crucial role in accounting research because "accounting operates in a complex institutional setting where the location and context of social interaction is important for explaining and understanding it". This argument is also shared by Carpenter and Feroz (2001, p. 566), who opine that,

> the assumption that, in accounting, economic self-interest motives drive choice is not necessarily inconsistent with the notion that self-interest motive may be determined by organisational, political, and institutional factors. Institutional theory is important in explaining accounting choice in organisations where self-interest maximizing actors cannot exert effective influence over the choices of accounting practices because of their relative power positions in organisations.

Thus, accounting can be seen as a social and institutional practice in organisations (Carruthers 1995; Miller 1994). Moreover, Covaleski, et al. 1996, p. 11) argued that accounting, in the form of institutions, probably shows "a ceremonial mean for symbolically demonstrating an organisation's commitment to rational course of action". Consequently, by showing the existence of companies based on expectation, norms and beliefs that are judged by members of societies, it will help organisations gain support of the community and finally legitimacy (Scapen 1994).

Legitimacy can be achieved when organisations operate their activities in accordance with norms, rules and values of their respective institutional environment (see DiMaggio and Powell 1983; Meyer and Rowan 1977; Mizruchi and Fein 1999; Scott

1995). The institutional environment, as Meyer and Scott (1983, p. 149) claim, within which the organisations operate is "characterized by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy..."

Financial reports, as products of accounting practice, can be used as an attempt to legitimate organisation activities. Financial reporting practice can play a role in constructing a rhetorical story about the organisation's actions that are in compliance with socially imposed beliefs of how organisations should act (Allen and Caillouet 1994; Dowling and Pfeffer 1979). Although such a rhetorical story sometimes does not really have any connection to what organisations do, it is often utilised as a form of symbolic reassurance to meet external expectations and as an attempt to gain a reward through increased legitimacy and resources (Stanton, et al. 2004). For this, Meyer and Scott (1983, p. 235) affirm that,

> ...accounting structures are myths... [which] describe the organisation as bounded and unified, as rational in technology, as well-controlled and as attaining clear purposes. The myths are important: they help to hold the organisations together with their justification... [and] they legitimate the organisation with the controlling external environment.

Hence, within the environment, financial reports can be used as a basis for enhancing organisational legitimacy. Financial reports can also play a role as a symbol of an organisation's commitment to external values, such as the need for transparency and public accountability (Coy and Pratt 1998; Hooks, et al. 2002).

CONCLUSIONS AND LIMITATIONS

This research analyses financial reporting practice as ritual. It is claimed that financial reporting practice is an institutionalized routine that becomes a ritual in *PT. ABTBK*. As it is explained, this company tends to conform to the pressures through coercive, normative and mimetic isomorphism. This is an institutionalized routine that becomes a ritual in *PT. ABTBK*. Indeed, financial reporting practice is considered a ritual of constructing and delivering information to an audience. Furthermore, financial reporting practice has been perceived by the organisational member as a ritual involving daily activities of identifying, measuring, and recording of transactions/events. Finally, it is asserted that communicating information to other parties in a systematic and repeated way is required. For *PT. ABTBK*, the pivot of conducting rituals in regard to the financial reporting process is obedient to social values and norms as well as law, and regulations.

Besides that, institutional theory provides a useful framework for understanding the dynamics of financial reporting practice in the particular company. It clearly explains how the company shapes its internal organisational rules and structures and designs them to be in accordance with socially acceptable beliefs, values and norms, and finally, to socially construct financial reporting practice.

The research provides some insights of accounting studies. It can boost sociological studies of accounting and develop the understanding of accounting knowledge and practice within social and institutional contexts. Hence, for the purpose of theoretical use, the results of the literature review bring an array of research Endeavour's in financial reporting and provide contribution in other studies to several disciplines.

Despite its rich and thick description of the case chosen for this study, it is worthwhile noting a number of limitations. First, the findings of this study are constrained by a single company with a focus on the insurance industry, and are also constrained by a relatively short data collection period (six months), during which there were no new regulations or pressure during data collection that might influence the company. Possibly, a more complete and comprehensive analysis of institutional, political, and cultural change is needed. Second, the field study was performed successfully because of the authority of the President of the Board of Directors. Unfortunately, such authority could lead to a problem. As other ethnographic field studies, this study might be suffered from problems of data credibility. Even though people being interviewed had freedom to express their views and their names were not included in this report, it is possible that they might provide information about the company in favourable tones. This, of course, could result in subjective findings that might not reflect the true description of phenomena being studied. However, because this study was performed using a triangulation approach in collecting data (documentation, participant observation and interview), misleading information could be minimized.

Finally, considering limitations of this study, further studies involving different companies from different industries are needed. In order to examine the consistency of research findings, such studies should be still directed toward answering further questions such as whether companies with ethical organisational cultures always commits to quality financial reporting practice; whether ethical leadership always drive a company to commit to such practice, and whether local culture constructs financial reporting practice of a company.

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