

Culture of corruption and symbolic rationality of accounting information – higher education implication

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ABSTRACT

When corruption becomes daily and socially acceptable practices, the functions of financial accounting have shifted from the instrument of managerial responsibility to a symbolic rationality of actions. Professional organizations of accountants and educational institutions consider this phenomenon as an ethical issue and have made professional ethics a mandatory subject for accounting students. This study aim to gain a better understanding of the role of accounting information in a corrupt society. It also tries to gain a better understanding that the accounting higher education institutions should play their role in this context. This study uses an interpretive phenomenological approach for the analysis. It is noted that it stresses the need for higher education institutions to take additional action by criticizing accounting principles that are fundamentally very capitalistic, being more flexible to different schools of thought, and incorporating the values of divinity into all accounting subjects.

ABSTRAK

Ketika korupsi menjadi praktik sehari-hari dan dapat diterima secara sosial, fungsi akuntansi keuangan telah bergeser dari instrumen tanggung jawab manajerial ke rasionalitas tindakan simbolis. Organisasi profesi akuntan dan lembaga pendidikan menganggap fenomena ini sebagai masalah etika dan telah menjadikan etika profesi sebagai mata kuliah wajib bagi mahasiswa akuntansi. Penelitian ini bertujuan untuk mendapatkan pemahaman yang lebih baik tentang peran informasi akuntansi dalam masyarakat yang korup. Ini juga mencoba untuk mendapatkan pemahaman yang lebih baik bahwa lembaga pendidikan tinggi akuntansi harus memainkan peran mereka dalam konteks ini. Penelitian ini menggunakan pendekatan fenomenologi interpretatif untuk analisisnya. Perlu dicatat bahwa menekankan perlunya institusi pendidikan tinggi untuk mengambil tindakan tambahan dengan mengkritik prinsip-prinsip akuntansi yang pada dasarnya sangat kapitalistik, lebih fleksibel untuk aliran pemikiran yang berbeda, dan memasukkan nilai-nilai ketuhanan ke dalam semua mata pelajaran akuntansi.

1. INTRODUCTION

Financial and business scandals around the world have been noted globally such as Enron, HIH Insurance, Partmalat, and recently Garuda Indonesia Airways, Asabri and Jiwasraya in Indonesia. This involves international accountants and accounting firms and implies that fundamental problems in accounting and the accounting profession continually become a topic of discussion in scientific discourses in the accounting as well as auditing professions

(Cooper & Neu, 2006; Barlaup *et al.*, 2009; Ilter, 2014; Sorensen & Miller, 2017). As a social phenomenon, accounting cannot be separated from the role of accountants as a consequence of their “work and communication as well as reflection” (Llewelyn, 2003: 665). To understand accounting information, it is necessary to understand accountants’ behavior in social interactions that take into account the inter-subjective meaning given to and believed by the social community (Rudkin, 2007).

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As a matter of fact, the accounting standards process is subject to competition among interested parties (Palmon *et al.*, 2011; Kidwell & Lowensohn, 2019). Conceptual framework (CF) as the basis for the preparation of accounting standards, for instance, explicitly states that accounting information is aimed at meeting the interests of shareholders and creditors not society as a whole. The framework implies that accounting information is not absolutely objective, but objective on a contextual level. Therefore, it can be said that accounting information is value laden and it is not value free technology (Puroila & Mäkelä, 2019; Brown & Dillard, 2020).

The normalization of corruption involves businessmen, government officials and politicians in Indonesia (Apriliyanti & Kristiansen, 2019) and this has created a society that is permissive towards corrupt behavior (Suchman, 1995). Corruption is seen as a natural act and transforms into social values that are passed down from one generation to the next as a tradition. This accepted values will likely reduce the reliability of accounting information and a loss of confidence in financial statements as a medium for management accountability (see also supply chain corruption by (Silvestre *et al.*, 2020). In such an environment, financial statements finally become a symbol of rationality and social legitimacy to justify the actions of management (Wahyudi, 2012).

Following recent corporate collapses and scandals, ethics has become a central issue and widely discussed in higher education and professional accounting bodies (Jackling *et al.*, 2007; Sugahara & Boland, 2011). Ethics itself is closely related to the concept of morality that underlies whether an action is good or bad. In the US, financial scandals involving CPAs are perpetrated by several "bad apples" who violate the ethical code of conducts (Ariail *et al.*, 2020: 1064). However, corruption and collusion in Indonesia have become a common practice due to the weak morale and integrity of employees and management of organizations and the financial scandals may be viewed differently (Syarif & Prastiyo, 2018). This practice is often understood and blamed for a feudalist-heritage culture that does not separate private from public interests (Santoso *et al.*, 2014). Unfortunately, higher education in accounting fails to pay serious attention and incorporates ethics into the learning process (Onumah *et al.*, 2012).

This study intends to describe the role of accounting in a society that tends to regard corruption as acceptable practices and how accounting education should address the situation. The Institute of Indonesia Chartered Accountants, known by its acronym as IAI, has requested that an ethics course should be included in the higher education curriculum. Therefore, this study also intends to describe and evaluate whether the IAI's decision to include the professional ethics course is adequate and how higher accounting education should respond to issues of a culture of corruption that has the potential to reduce the reliability of accounting information.

2. RESEARCH METHOD

This study uses a hermeneutic Phenomenological approach developed by Heidegger that is less objective and more personal or reflective for the researcher. This is referred to as interpretive phenomenology because it requires an interpretive analytical method rather than a simple descriptive method (Jackson *et al.*, 2018). As a part of qualitative research tradition, phenomenology focuses on human life experience. The term phenomenology itself refers to "anything that appears to someone in their consciousness" (Moran, 2000 as quoted by Gill, 2015). The informant's life experience becomes the most important source of data to better understand accounting practices in the historical context in which the experience occurred to have knowledge of the core experience of the phenomenon.

The data were collected using interviews and daily interactions with the informants - accountants as well as lecturers from two higher education institutions - a private institute and a public university. The interview was done in an unstructured manner and was more informal in nature while the researcher carried out his activities as a lecturer and management consultant. This interview aims at flexibly exploring experience as well as behavior of the participants from their terms of reference (Halabi *et al.*, 2010).

Six informants - accountants and lecturers - were selected. The informants were selected because they all had practical accounting experience as well as teaching experience at a higher education institution. Since they are both academics and practicing accountants, all of the informants are aware of what is going

on in accounting education and practice, as well as the gaps that exist between the two. Of the six informants, five were permanent lecturers and one was a part-time lecturer. The composition of the informants comprise of permanent lecturers who are concurrently management consultants (IWS and WP); a permanent lecturer who is managing director of a Regional-Owned Enterprise (J); a permanent lecturer and partner of a Public Accounting Firm (AJ); a permanent lecturer and management accountant (ES); and a public accountant who is also part-time lecturer (TH).

The data were analyzed using a hermeneutic approach that involved interpreting the meaning of the text (Rowan & Reason, 1981). Language analysis is chosen because it is a mirror of culture/tradition. The informant's life experience is reconstructed through the results of the interview in the form of words or text. The language reflects the culture and traditions of the community and the tradition is a way of continuity and development of the language.

Hermeneutics is an attempt to explain and understand a text or analogue text, which in some ways is confusing, incomplete, and ambiguous, seems contradictory - in one way or another, it is not clear (Taylor, 1976: 153). The interpretation is intended to reveal an underlying coherence of meaning. In the process of analysis, researcher's preconception influences interpretation. Therefore, it involves the researcher's subjectivity in an interpretation process. It is due to the interpretation of texts being not an activity isolated from human beings, but a fundamental structure of our experience of life (Wijesinghe, 2012).

When the approach of phenomenology is taken to be interpretive, it becomes hermeneutical (rather than purely descriptive as in transcendental phenomenology). This viewpoint is consistent with Heidegger's assertion that all explanation is already interpretation. Every aspect of human consciousness is interpretive in nature. The researcher's and informants' personal experiences, past experience, personal prejudices, and expected outcomes all affect the interpretation (Farooq, 2010). As a result, the researchers' previous understanding and experience play an important role in deciphering the context of a text, necessitating the use of a reflexive approach (Farooq, 2018).

3. DATA ANALYSIS AND DISCUSSION Culture of Corruption and the Role of Accounting

Accounting has been used as a symbol of rationalization in the decision-making phase of organizations in modern society (Dobija *et al.*, 2019; Dillard *et al.*, 2004; Perera *et al.*, 2005; Wahyudi, 2012; Wahyudi, 2010; Chelli *et al.*, 2014; Chelli *et al.*, 2019; Williams & Adams, 2013). By using accounting information, management convinces the public that the operations of the organization are rational and objective (Ansari & Bell, 1991; Beckert, 1999; Burns & Scapens, 2000; Brignall & Modell, 2000; Wahyudi, 2012).

Researchers who are interested in observing the influence of symbols, rites, and ceremonies (Boland & Pondy, 1986; Ansari & Bell, 1991; Lapsley, 2001; Uddin & Choudhury, 2008; Agyemang *et al.*, 2020; Jayasinghe *et al.*, 2020) reject the notion that accounting and management served as the main medium of business solely on the basis of technical-rational considerations. The accounting system that is culturally integrated into the identity of modern organizations is essentially a reflection of "the dynamic processes of organizational culture" (Jo Hatch & Schultz, 1997: 361) that constructs and communicates an organizational image - an image that is built from the myth of stories, knowledge and future prediction (Rudkin, 2007: 22).

Culture reflects the agreement of ideas, meanings, values, and norms within an organizational group or society that determines the appropriateness of their attitudes and behavior (Youngblood, 2000). The cultural environment affects and it is influenced by human behavior around it. The process of adapting individual behavior into culture leads individuals in the cultural group to an agreement on how to act which often becomes a mere ritual and ceremony. To meet the demands of the cultural environment, an organization may symbolically adopt an accounting information system to gain legitimacy (see for example: Carpenter & Feroz, 2001; Wahyudi, 2010).

In Indonesia, conspiracy to commit corruption has become a common practice (Santoso *et al.*, 2014); Antoni, 2019; Syarief & Prastiyo, 2018; Prabowo & Suhermita, 2018; Quah, 2019). This condition has reached a stage as accepted for granted by the society or acceptable practices within the society.

From a cultural perspective, the condition is referred to as the normality that later becomes the social values of society. The normalization of corruption is accomplished through the conspiracy of business oligarchs, bureaucracy, politicians (Suchman, 1995), state officials and society in general.

In the culture of a corrupt society, accounting tends to be a symbol of rationality and legitimacy. There is a tendency that the accounting system is distorted in practice – it decoupled from its actual practices (Wahyudi, 2012). According to Suchman (1995), legitimacy itself can be interpreted as a general perception that an entity's actions are adequate and appropriate in a certain system of norms, values and beliefs. Organizations may use the accounting system as a ritual and ceremony (Li *et al.*, 2000) in order to gain social legitimacy. As a result accounting as a source of financial information loses its role as a means of managerial accountability.

This is in line with ES's statement as follows:

Do you believe that the financial statements reflect the reliable information? I dare say that formal documents... including financial statements tend to provide an often different picture of the reality that occurs. As a management accountant at a company that relies mostly on government projects, I realize that what is stated in the financial statements...where I am involved as the preparer... often does not reflect the reality that should be reported. I must recognize that the basic documents used sometimes come from fabricated documents.

In addition, TH – an external auditor – supported the statement of ES by saying,

However, as long as the formal supporting evidence exists and is complete, we assume it is reliable. It is impossible for us to trace all records back to their original documents because it will be very expensive and time-consuming. After all, the only thing we can guarantee is that the information in the financial statements is portrayed fairly and in accordance with accounting standards and principles, even if we believe that some documentation of the transactions is fake - legal but misleading. We don't have a choice because these are common practices in Indonesia.

Related to the issue of the reliability of transactional evidences, an informant openly acknowledges that the practice of fabricating

the evidences exists and frequently occurs in business practices in Indonesia. He bluntly explained his experience as follows:

I think collusion in the form of rubber-stamped transactional evidence has become a common practice in Indonesian public as well as private sectors. Initiatives may come from suppliers to establish long-term business relationships or project managers to get project money for themselves. We clearly acknowledge and accept the presence of such evidences because all of their formal legal requirements have been met. (Informant - J)

Corruption can occur in various forms of illegal payments (bribes) given to the government and state employees to obtain certain benefits that should not be obtained, or misappropriation of state property and facilities for personal gain (Li *et al.*, 2000). Monopoly and discretion of the authorities without being accompanied by demands for accountability (Klitgaard, 1988) raises profit motives for authority holders - bureaucrats/ state apparatus for their own personal or political interests, business people (private) to get facilities for their own benefit business, and general society to get services without going through existing procedures or requirements (Everett *et al.*, 2007).

WP described the practice of corruption in government institutions when she was a management consultant for government projects as follows:

I am really shocked whenever I interact with project managers, who are generally government agencies that I work with. Every time I got a tender for a government project, the bureaucrats and government officials imposed a lot of illegal fees on the project for their own benefit. Eventually, I have to fabricate evidence of the transaction. We are faced with a difficult situation because refusing to do so will have a bad impact on the consulting firm where I work.

This interaction - conspiracy - then creates a kind of behavior pattern and a feeling that the act is normal. The practice is transformed into social values and norms that are passed from one generation to the next as a tradition. In another words, regeneration of corruption is taking place (Wahyudi, 2012; Prabowo & Suhernita, 2018). The Indonesia's New Order government legalized the regeneration of corruption for nearly thirty years through formalization into

various government systems, procedures and regulations (Robison, 1986; Vatikiotis, 1993; Elson, 2001; Wahyudi, 2010; Wahyudi, 2012). Prabowo & Cooper (2016) consider this practice as a process of normalization to be social values that determine the reasonableness of social attitudes and behaviors.

This is in line with the statement of an informant as follows:

I think it is very difficult to understand our society in addressing the phenomenon of corruption. On the one hand, we are often involved in corruption in our work and daily interactions. On the other hand, when we become victims of the corrupt behavior of others, we will say that the act of corruption is inappropriate because it harms the people. In other words, on almost every side of life, we as a society are involved in corruption – as perpetrators and victims all at once. That's... I think the characteristics of a corrupt society. (Informant - A)

Malagueño *et al.* (2010) suggest that improving the standard of accounting and auditing will help to overcome and deter corruption. In such a collusive society, however, it is difficult to implement. When evidence of a transaction can be fabricated, then the auditing theory stating that the external evidence is more reliable than internal evidence, becomes invalid. All types of evidence can be fabricated when collusion becomes commonplace and is accepted by the majority of members of the society. In such an environment, anti-corruption measures in the form of various rules and regulations aimed at eradicating corruption cannot detect and stop corruption itself (Weidman & Enkhjargal, 2010).

The phenomena take place in both private and public institutions, including education institutions. Wahyudi (2012) found that in a higher education institution in Jakarta marking up of transaction evidences had become a commonplace and to the knowledge of the leadership of the institution on the grounds that it was to provide additional income for employees. This is a serious issue because educational corruption is more than just a financial issue. It is also an insidious factor undermining the moral authority and transparency of governments and political systems (Weidman & Enkhjargal, 2010) as well as the nation's future generations. This practice demonstrates that the community is confronted with ethical and moral issues (Dion, 2010).

Professional Ethics and Accounting Higher Education

Ethics and integrity are the foundation of all professions including the accounting profession. Consequently, since 1987, the Treadway Commission in the United States has called for ethics to be taught as part of the accounting program. However, according to Monsour (2007), ethics only received a serious attention after the implementation of the Sarbanes-Oxley Act of 2002 and the Statement on Auditing Standards No. 99 demanding fraud to be considered in an audited financial report. The National Association of State Boards of Accountancy then proposed a revision of the requirements for CPA, namely taking three credit points of Ethics and Professional Responsibilities of CPAs (Monsour, 2007).

Indonesia has been ranked among highest corrupt countries, according to international transparency surveys. Therefore, the problem might lie in the value system prevalent in society (Prabowo & Cooper, 2016). By mandating professional ethics courses into the curriculum of accounting education program, it means that IAI considers the social values of Indonesian society in general to be non-problematic. Various business practices that involve conspiracy among business people; among business people, bureaucrats and politicians; and bureaucrats and the community in the form of bribes, mark-up and the like are apparently understood as individual cases rather than accepted practices within the society. Moral hazard involving accountants might be interpreted as occurring because of the lack of understanding of the accountant professional code of ethics.

Indeed, corruption in Indonesia is considered normal through the normalization process (Prabowo & Cooper, 2016; Apriliyanti & Kristiansen, 2019). The process, according to Ashforth & Anand (2003) is carried out through the stages of institutionalization, rationalization and socialization. Similar problem was found in many countries (for instance: Bhargava & Bolongaita, 2001 in Thailand; Lee, 2018 in China and India; Iyoha & Oyerinde, 2010 and Otusanya & Lauwo, 2019 in Nigeria). The problem is the social values of the people who accept such practices as the social norm. In this corrupt social environment, the general public has a somewhat different understanding of corruption from what is widely considered to be corrupt practices (Dion, 2013).

Apart from the formal purpose of adopting professional ethics courses, the implicit goal is to gain legitimacy from the professional community-professional accounting organizations-at the national and international levels. The imitating process occurred most likely triggered by the very high uncertainty (DiMaggio & Powell, 1991) of the accounting profession after the uncovering of various giant business scandals involving the world's giant public accounting firm Arthur Andersen. As a member of the IFAC, IAI endorses the incorporation of ethics into accounting education as part of ongoing professional development for accountants (Jackling et al., 2007). The myths that are created are able to increase legitimacy because of people's belief that professional organizations act rationally and effectively (Meyer & Rowan, 1977).

At the same time, higher education managements want their institution to be seen as having the capability and competence to organize accounting education and their graduates meet professional qualifications. The network of professional organizations has the power to determine the status of formal accounting education and its graduates according to the criteria of world professional organizations (West, 2017). The recognition from professional organizations will increase the legitimacy of these educational institutions. Thus, the adoption of professional ethics courses into the accounting higher education curriculum may not be directly related to building up the character of accountants, but more in the interests to gain professional legitimacy (Hooper & Xu, 2012).

It is perhaps for this reason that higher education institutions offer different content taught in the same professional ethics courses. Many reasons can explain this situation - faculty members' lack of ethical understanding and perceptions of the importance of ethics education (Bampton & Maclagan, 2005), no consensus on the literature used and inadequate learning resources (Blanthorne *et al.*, 2007), and controversy in incorporating ethics as a stand-alone courses or integrated into relevant existing courses (Blanthorne, 2017; Rezaee *et.al.*, 2012; Sugahara & Boland, 2011; Loeb, 2010; Sadler & Barac, 2005; Alam, 1998).

The further consequence is that including professional ethics courses into the higher education curriculum of accounting does not have an impact on changing student behavior

in responding to corrupt behavior which is considered normal in society. Ethics courses fail to construct an ethical character that becomes fundamentally the most important and critical process for upholding ethical behavior (Chan & Leung, 2006). It is because the adoption heavily emphasizes on the formal code that focuses on accounting profession regulation and control rather than accountants' ethical conduct (Baker, 2014).

The issues that need to be addressed are group actions and culture. According to an informant, the state should take the steps to resolve this situation:

I believe that simply adding one subject called professional ethics to the accounting curriculum is an act of miss-addressing. This is our nation's big problem - corrupt society. It is the state's responsibility to play a significant role in the fight against corruption and the transformation of people's attitudes toward integrity and hard work. The issue is social culture. Accounting students would not be able to transform their attitudes and habits into better accountants simply by enrolling in the ethics course. (Informant - TH)

The Role of Accounting Higher Education

Sikka & Wilmott (2002: 194) capture the essence of accounting educator duties as follows:

Accounting is central to the workings of capitalism. It prioritizes property rights (as in a balance sheet), celebrates the supremacy of capital over labor (as in the income statement) and encourages belief in efficiency, private profits and competition. . . . Emphasis on its technical aspects tends to displace consideration of accounting's role in representing social conflict. Instead of posing questions about the role of education in legitimizing practices that result in exploitation, poverty wages, environmental degradations and fraud, the issues become those of following the right techniques and/or accounting/auditing standards. In this way the social core of accounting becomes hidden from scrutiny.

There are two important things that need attention in accounting education. First, accounting higher education should open up by changing the way of view from accounting as a value-free technology to accounting as a social science discipline that always value laden. It was emphasized by an informant by saying that,

This paradigm change is expected to change the curriculum of accounting education by including materials outside of traditional materials that have been taught in accounting courses such as good moral values in all relevant subjects. Students have to be introduced to an understanding that accounting information is a social phenomenon resulting from conflicts of interests of various parties. The information will always bring the values of its producers and those who finance the preparation of such information. (Informant - IWS)

Second, the economic system that underlies accounting concepts and practices - the liberal and capitalist economic system - is not without problems. Within this perspective, accounting information becomes a business commodity that more represents and benefits the interests of capital owners than other groups in society (Adams *et al.*, 2020). This can be seen from the building of accounting concepts developed jointly by the FASB and IASB, for example - the conceptual framework for financial reporting standards - which adopts fair value with the assumption that market value, is perfect and complete. In addition, the information is oriented to the interests of the capital providers - stockholders and creditors (Irsyadillah, 2019).

The opinion of the FASB and IASB regarding these market prices is at first sight reasonable - market prices reflect fair value occurring in a fair business mechanism. In fact, market pricing mechanism is problematic because markets are never perfect and complete. The use of current market values can be misleading for those that do not have the power to determine market prices (Stolowy & Breton, 2004; Whittington, 2008). The market operates not without intervention, especially those with economic power, be it the state or business actors.

Eradicating and eliminating corruption and corrupt behavior is not just a matter of including professional ethics courses, but also it concerns good and effective governance and use of public resources efficiently for the benefit of society and the accounting profession (Stapenhurst & Kpundeh 1999 in (Al Zadjali *et al.*, 2010)). This is because, in the history of Indonesian government and state institutions, corruption in the state and public sectors has been a part of the "knowledge conversion" (Prabowo *et al.*, 2018). Adding professional

ethics courses to the accounting curriculum need to be accompanied by integrating a change in the educational perspective of accounting - accounting as a social phenomenon and therefore is value laden.

This view was supported by AJ in his opinion as follows:

The majority of the higher education curriculum in accounting emphasizes that accounting information is objective or value free. As a result, accounting information is viewed solely as a value-free technology by students and graduates. They do not realize that the choice of method of valuation, recording and reporting represents the different interests of accountants and users of accounting information. That choice sometimes sacrifices the interests of other parties so that they cannot be ethically accounted for. In addition, now there is a tendency for the curriculum to be dictated by professional organizations which are of course interested in protecting their professional interests. Simply adding courses in professional ethics is very difficult to change that belief.

Professional ethics relates to four basic psychiatric processes which include ethical sensitivity, ethical judgment, ethical motivation and ethical character (Chan & Leung, 2006). The Business and Professional Ethics course emphasizes the aspects of ethical sensitivity - interpreting the situation, ethical judgment - determining whether an act is ethically and morally right or wrong and ethical motivation - prioritizing ethical values over other values such as personal interests. However, the course is not related to the most critical process in enforcing ethical behavior that is ethical character - having the courage and willingness to face various obstacles and challenges to perform ethical actions. It becomes an issue when people consider corruption as a common practice and not a social aberration - values that are mutually agreed upon by a society and become part of the culture of the community.

4. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

Accounting must be understood as a social phenomenon so that the information presented always reflects the conflict of interests of various community groups interested in the information. Therefore, accounting information needs to be understood in the

perspective of social sciences - the science that studies social phenomena that is human behavior - accountants. The "objectivity" of accounting information must be understood as information resulting from the process of competing interest among various groups within the society. Accounting is not just technical-rational information that is value-free - neutral and objective, but contains values - value laden.

When corruption has been accepted by society as a common practice, accounting information loses its reliability and is no longer representative. Financial accounting information tends to shift from a managerial responsibility to a symbolic rationality that management has behaved rationally and appropriately in such an environment. As a result, formal systems lose their ability to reveal the events that occurred in the context of the data presented. The accounting system's ability to capture real events deteriorates.

Consequently, in line with Sikka & Wilmott (2002), the accounting curriculum requires fundamental changes rather than just patching it up by adding certain courses - business and professional ethics - which is often more ceremonial than reality. Instead of incorporating ethics education as an independent course in accounting programs in colleges and universities, this study offers fundamental changes that must be made to criticize accounting from its capitalistic basic concepts of being more open to various schools of thought and integrating ethics and divine values in all relevant accounting courses.

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