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## **Ethnicity and Gender Inclusions in Accountant Firms: Case of Indonesia**

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### ***Abstract***

*The foregoing analysis and the hypothesis of the previous research by Bararoh and Yuliarini, 2007 showed that although female auditors score higher in ethics than their male counterparts, the chief's position in accounting firms are more often held by men than women. The reason behind this is not any discrimination in the accounting firms but the individual aspects and external factors (client). This research focuses on the factors such as 1) The inclusion of social issues in accounting firms, 2) Job design disruption in the firms, and 3) conditional circumstances in decision making. Earlier studies indicated that the ethnicity variable did not have a significant impact on the performance of auditors because of a reformation process from ethnicity to the nation state or citizenship. The intensive interaction pattern of the social interaction is known as heterocultural society.*

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**Key words:** *Inclusion of social issues, job design disruption, conditional circumstances, heterocultural society*

**JEL Classification:** *J 71, J 81, M 42*

## 1. Introduction

Bararoh and Yuliarini (2007) and Peterson et.al (2001) examined the ethnic dimensions of gender and ethnicity as factors that influence the social construct of a working group to create a specific ethical situation. It is shown that a situation of ethics can be created for the individuals who form a community of an ethnic group or gender group (Abdolmohammadi and Reeves, 2003).

Moreover, Abdolmohammadi and Reeves (2003) conveyed that ethnicity issues generate rules of social constructs that create stronger social tendencies in ethnically homogenous groups compared to those with diverse ethnicities. Diversity within the members of the group may bring potential costs to the organization, such as interpersonal conflicts and communication problems. Pineda (1997) mentioned that social perceptions created by a particular ethnic or gender group cause potential conflict with the ethnic heterogeneity inside and decrease the performance level and the professional ethics within working groups. According to Johnston (2011), this condition actuates individual to be more courageous for working with people of the same ethnicity or gender and demand individuals from minority group to conform with the majority as workplace culture.

Considering the above issues, it is crucial to explore the various aspects in accounting ethics in more comprehensive behavioral research. Many previous researches in Indonesia tried to find the connectivity of gender and ethnicity as variable to measure work performance level (T. Bararoh and S. Yuliarini, 2007, S. Darmadi, 2011, Y.W. Prihatiningtias, 2012). The aspect that is considered to be explored further is the nature of reality to how gender and ethnicity as social constructs influence the professionalism of auditors.

Previously, by using a qualitative approach, Y.W. Prihatiningtias (2012) found that Indonesian female managers engage their different personalities to solve day by day working challenges and most of them reached the top level. An auditor, who is known as a professional involving social and ethical perspectives (Reynold, 2000), is required to have a code of ethics which is standard for all professional auditors. Accounting professional societies and their members (individuals or groups) have a reciprocal influence. Their interactions, therefore, can be dependent on a multi non-linear sequences. According to Collier (1994):

*“Relations presuppose other relations, relations relate to other relations. The latticework of relations constitutes the structure of “society”. It is possible to focus study on the relations (which may endure through changes of the related individuals), or on individuals (who may endure through changes of the related individuals), or on individuals (who may circulate around the network or relations that is society).”*

To strengthen the prior research project in Indonesia, Bararoh and Yuliarini (2007) found a correlation between gender and professionals but not with ethnicity. The results indicated the scale of ethics between homogeneous groups of males is lower than homogeneous groups of females. Although the female groups have a better score than male counterparts but the leadership in the accountant firms are more held by male. The data from the Indonesian Institute of Certified Public Accountants (2011) shown that in 2011, there were only 11 women (12%) out of the total 90 number of accounting firm's CEOs or auditor partners in the country while in 2013, 51 or 10.6% were registered female auditors from total 478 registered auditors.

Although the literature on this is not extensive but present literature seems to indicate a general tendency of discrimination for reaching the top position in auditing firms. The imbalance proportion of gender in Indonesian accounting firms can be an inquiry gap to check the interaction in teamwork or organizational processes.

Based on the above study, the questions arise whether there is discrimination in the accounting profession and how gender and ethnicity accountant in Indonesia have different impacts on their profession (to reach long term career and highest position). For obtaining answers, we set the context of interview for our participant's interactions in their work situations, not only with the accounting organizations but also with the wider elements of class, ethnicity and gender as they appear in the process of interaction.

## **2. Literature Review**

### **2.1 Does the Discrimination Occur in the Accounting Profession?**

The registered professional is engaged with ethic codes. Earlier study of ethics in medical field by The American Medical Association (1847) cited by Davis (2003) mentioned professionals as a social contract between the profession and society. Today ethics or morals are generally studied within the discipline of philosophical science or human behavior. The ethics provide a fundamental understanding of limits whether something is allowed or not.

However, the ethics involve a complex process of determining what should be done within a group of individual (Salim, 2006). Auditor is a professional who conducts working through a set of ethic's code. The ethic code's existence should eliminate stereotype on differences in gender and ethnicity, which often becomes the root of discrimination.

The picture of discrimination in accountancy organizations is revealed in previous researches like the interaction of individual within accounting organizations by Johnston and Kyriacou (2011) noted the racism still existed in the UK institutional structures of accountancy and gender discrimination tended to occur due to the males' dominance in the industry. Before that Twomey, Linehan, and Walsh (2002) found the case in Ireland that male domination in accountancy practice causes restricted female counterpart in getting higher

level. The domination does not always become a bad view, if it follows with a proper ethic values in practices. Such a case is revealed in Sweden by Amir, Kallunki, and Nilsson (2011) who found that there are more likely to have criminal convictions in Non-Big-5 auditing firms done by male auditor.

The ethical values which rise from the profession ethic's code have different impact on every state. It depends on individual to absorb and conduct the ethic on their behavioral life within a group Yunos, Ismail and Smith (2012) cited that the individual refer to the ethnic group. Ethnic group behaviors do not represent the national culture. Moreover, Yunos et.al (2012) found that Malaysia comprises of three ethnic groups (Malays, Chinese and India) who are dominant in business running and audit committee are Malays and Chinese. The research suggested there is no influence of ethnicity on accounting conservatism.

## **2.2 Do Gender and Ethnic give Guarantee to have Long Term Career and Highest Level?**

Auditor, even external or internal commit in accordance with the accepted norms of a society or group. Under the Institute of Internal auditor of Indonesia (IIA-Indonesia) for internal auditor and The Indonesian Institute of Accountants for external auditor set guidelines and code ethic for the professional practices. The existence of profession society and the ethic's rules provides guidance about performance. Whether each accountant firm or individual accountant professional is required to comply with the professional society and its rules, or they violate any financial statement that their profession may permit can be declined by the professional society.

The highest career in the accounting profession is adjusted according to the organizational structure of public accounting firm (Kantor Akuntan Publik or KAP). There are six organizational structures for KAP in Indonesia: (1) proprietorship, (2) general partnership, (3) corporation, (4) a professional corporation, (5) a limited liability company, (6) a limited liability partnership. In general, the highest level in KAP profession is having status as a partner.

The highest career achievement in the accounting profession is influenced by many factors. Blau (1969) and McGregor et.al. (1989) said that there are bureaucratic factors and professional factors. The bureaucratic factors has legitimacy to force charge because it is in an official position, which requires subordinates to follow directions under threat or sanctions. Meanwhile professional authority is recognized as competency skills, which encourages others to voluntarily follow the directions to show their capacity.

However, the profession has ties with the ethical rules in Indonesia known as Codes of Ethics of Professional Accountant (Standar Profesional Akuntan Publik dan Kode Etik Akuntan Indonesia). It should be accommodating accountant getting highest professional settlement. Peterson (2003) revealed the existence of situational factors that can affect the

assessment of ethical performance. So, competency skill will not assure someone to reach highest level in accountant career.

### **3. Methodology**

#### **3.1 Research Questions**

With the above consideration, this research is conducted to explore the causes and real conditions that occur in Indonesia's public accounting profession which could elucidate the issue on how gender and ethnicity may influence the accounting and auditing profession in Indonesia. As the previous research done by Bararoh and Yuliarini (2007) was a quantitative approach, they found that performance scale of female auditor is higher than their male counterpart, but it does not give chance to female auditors to get higher level in accountancy firms. The real condition can be revealed through qualitative method which can do in-depth observation and interview directly to the participants.

#### **3.2 Methods**

This research used a qualitative approach and was conducted on thematic analysis (Creswell, 2007) for examining the qualitative data. This approach provided a framework for the thematic analysis of qualitative data and it provides one way of thinking about how to manage themes and data (Bryman, 2008). The aim of study is to examine the role of ethnicity and gender in the professionalism of auditors.

Selecting the cases for this project was a difficult process but the literature has provided guidance in this area (Yin, 2004). Moreover, Stake (1995) suggested that the selection offers an opportunity to maximize what can be learned, knowing that time is limited. Thus, the chosen cases should be easy and have willing subjects. A good instrumental case does not have to defend its typicality.

One selected case is a prior research project conducted at the Office of the Indonesian Institute of Accountants in East Java Province of Indonesia, which in 2007 had 45 members of public accounting firms in the city of Surabaya and 15 public accounting firms in the city of Malang, but in 2013 the number declined to only 53 members. East Java has been chosen as an object of study because it has multi-ethnic communities by Bararoh and Yuliarini (2007). The hetero-ethnicity provides various social situations which reveal the social aspect of professional accounting practices.

#### **3.3 Data**

In this current study, the dependent variable, which is the professional performance, is assumed to be affected by gender diversity in Indonesia accountancy firms. Gender and ethnicity are time-consistent characteristic data. We used catagorical sampling method.

The population consisted of all auditors working in a public accounting firm in East Java, Indonesia which in 2013 reached to 53 registered auditors, regardless of their type of

employment, title, and position as a public accountant. The population obtained from accountant firms of which number of population was sorted as samples with a specification on the composition of gender and ethnicity or categorical sampling. Yin (2002) suggested that in qualitative approach participants could be the actors whose representation of situation commonly occurs. Thus, we can make consideration of requirements as actors for interviewing. The actor should be representative of his or her particular requirement (see in Table 1).

**Table 1: Demography picture of participant**

Requirement	Sequential	Attribute
Gender	Male	MA
	Female	FA
Ethnicity	Javanese	JA
	Chinese	CA
	Other native ethnic in Java	OA
Number of attributes		5

The term gender was used to represent the sex differentiating attribute and is divided into male (MA) and female (FA). The ethnicity, on the other hand, was divided into three categories to represent the number of ethnic attributes. We selected the Javanese category because it is the largest ethnic group in Java (JA). This island can be divided into three ethnic regions: West Java (Betawi and Sunda), Central Java (Javanese) and East Java (East Javanese). The Chinese category (CA) represented Chinese expatriates who migrated to Indonesia centuries ago and became the country's citizens. Furthermore, the category of other native ethnics or tribes in Java (OA) referred to other indigenous ethnics from other Indonesian islands who have lived and worked in East Java.

All participants of the project were contacted according to an agreed schedule. Since the previous study showed that gender was more significant to professionalism than ethnicity, we contacted participants who represented a gender requirement again to validate the findings. The number of FA as it was revealed was fewer than the proportion of MA. The interviews were conducted for around half hour from each participant and the information was collected based on the previous project's questionnaires, which were divided into three issues: 1) social issues 2) technical practice, 3) non-technical practice; decision making.

### 3.4 Analysis Data

The researcher became familiar with the data by reexamining the transcriptions more than once and selecting statements which were indicative of the main themes of the data. There was also a closer examination to decide the similarities in meaning in the categories. Since there were only seven women board members interviewed, the transcripts were still manageable to be manually analyzed. By conducting the manual analysis, it was easier to

make sense of the data by not only relying on the themes, but also by linking the themes to enable a more valid and reliable interpretation of the data.

While the observations supported were in line with the objective of this research, researchers preferred to review the findings regarding some participants for triangulation.

## **4. Results and Discussion**

### **4.1 Interaction between Auditor Member and the Top Level (Social Sensitivity)**

Our interviews with the participants revealed the existence of social problems that usually arise from social interaction.

MA: "Yes, we work as a team consisting of maximum 4 people. And indeed all the partners were men. We never have any big problems with our partners because we can solve by consensus"

The statement implied the existence of a group belonging that focuses particular gender, as well as a statement of female accountant (FA).

FA: "It most of the member were male, so were in my team. But it did not matter, since I got accustomed to work with them quickly"

As gender minorities, female auditors often need to work harder to assimilate themselves in their male dominated team. Abdolmohammadi and Reeves (2003) stated that the individual judgments are influenced by the group. It shows the social matters more accurately and confidently to group than individual for decision-making as well as the average member of the group.

While objectivity and independence of decision making are main requirements to work as an auditor (Belkaoui, 2007). However, the judgmental group were often more influential as a pattern of interaction among members in the accounting firm. This was revealed in an interview with CA:

CA: "There is always discussion with the client. That's why I still maintain objective thinking, because that the auditor partner felt happy. But I tried to avoid [discussion with partner auditors]"

CA as a non-partner auditor avoided having conflict with partner auditors, but he tried to interact with his client and partner auditors.

Daigneault (1996) tried to answer the question why many good people do bad actions. According to him, one possible answer was because the ethics of individuals can be affected by the ethical situations where they are in. In addition, individuals tend to make ethical decisions by taking into account the opinion of the group although it differs from individual opinion.



Another problem is because seniority is influential in the organizational structure of accounting firm in Indonesia. The concept of “seniority” here does not refer to high skill than others, but the length of time a person has work in an accounting firm.

CA: “Working as an auditor generally requires a high level of patience and foresight. But in our office, the senior over the age of 40 has 5 or more years to audit experience.”

MA and FA also mentioned about the distinction between senior and junior auditors in public accounting firms. FA said that junior auditors had less than 2 years’ while CA explained that to become a senior auditor, it is needed to work for more than 5 years in an accounting firm. There is, however, no written rules on how to be on a senior level.

MA: “I got monthly salary in the beginning, but now it is based on the number of jobs done. If I finish a project, I will get my audit fees. Definitely different base of salary, there are head of the accounting firm as the chairman of accounting firm, partners, seniors, juniors, managers. Especially in my office, there are no managers and no supervisor, senior auditors only.”

FA: “The highest are the partners, then the supervisors. After that, there are senior and junior auditors. One is called a junior if he has only joined the organizational structure for two years.”

Although, one is officially recognized as a senior, the amount of salary or fees is not regulated in a transparent manner. As the case, a junior can even get a larger income than a senior. This untransparent valuation, which creates a parity income bias is a potential cause of conflicts.

FA: “Maybe getting permanent is like a partner in malice situation, but I am a contract employee. I am paid based on each audit work. The permanent employees may have a different situation. They can join any team that is inactive at any time. The work is not assisted by the contract for non-partner auditor. If it will not be completed, it will be replaced by the partner auditor because partners are paid monthly, not like me. I do not know the amount of money they earn. It's a secret. They always say it is a secret whenever I ask about it to them. Although I know who is the cashier but it is still a secret”.

MA: “Usually, the procedure of payment from the client to an accounting firm is started if the audit work is done by transferring money to the office, then it will be cleared by Mr. M as the partner auditor and he will check the account. My fee is determined by his policy. Of course it is not transparent at all. I just receive the money. I do not know about how much others get.”

#### **4.2 Interaction among Auditor, Accounting Organization, and Client (Job Design Disruption)**

Auditor partners constantly maintain a good relationship with their clients to build trust, but there is limitation to non-auditor partner. Whereas, the assessment in fieldwork have to do

by non-auditor partners who are not in contact nor they have met the clients before. The non-auditor partner always faces the non-technical constraints such as lack of cooperation in fieldwork with internal auditor and accounting staff and even, with the manager. Sometimes, client asks for something far beyond the authority of the auditor's abilities, such as a peculiar request for an auditor who had the same ethnicity with client.

CA: "I always do discussion with client that's why I'm still being on objective thinking because that auditor partner pleased the result of the work, but I tried to avoid discussion with partner auditors."

FA: "I was a junior auditor. I could keep communication with the partner auditor when the others kept a distance from him. I always discuss things with Mr. S [the partner auditor] before starting to work. Therefore, we were introduced earlier by partners and letters shown by supervisor. Then, we were introduced to the client staff whose was in charge to help auditors. For my experience, they greatly appreciated the cooperation and gave us a room [to work in] next to the CEO's."

In the case of peculiar request from client, the female auditor (CA and FA) tend to put the communications to the client as they do to auditor partner. Conversely shown by male auditors, they are straight away refuses a job when a client asked for something unreasonable.

MA: "It was a request from a Mr. M's friend. Other accounting firm has much work, so they gave the job to Mr. M. Mr. M accepted the request from the potential clients that auditor needed is not a Javanese but a Chinese. But then client refused it. We did not meet the potential clients directly. We couldn't push them to choose us."

Furthermore, design work as an auditor has no significant career path. It is proven from the undisclosed amounts of salary and untransparency on the fees they received. Challenging time is performing an assessing work for a new client. Auditing is always conducted to the same client every year except the client is going to replace their accounting firm.

#### **4.3 Conditional Circumstances in Decision Making**

Interference experienced by auditor females is often related to the decision-making process. They have to work under high pressures because deadlines are agreed between the partners and clients. The work is also normally carried out at the place of the client which may be far from the auditor's residence. Female auditors are usually more comfortable working in the general area of the hours of work and a place known or in the client's office. They often have to work overtime, but female auditors are normally more comfortable bringing their work home. But for the flexibility male auditor took overtime working in the hotel or anywhere else if possible.

FA: "The transaction evidence has to be completely assessed and have to make an assessment worksheet paper. The evidence cannot be taken out; it must be done at the client's

office. In case, the client cannot stay at the office until the evening, as there are working hours. We could work on the worksheet paper at home”

MA: “Since there is a deadline, we need overtime. Because we need to meet with the client the next day to discuss things, including any questions from them related to auditing findings or corrective matters as well as internal control matters at the client’s office. It must be done at the client office. Any cases, continuing in the hotel because the location of the client is always outside town or if possible in the accounting office just for a little case for completing the details, no more than 2 weeks”

In addition, the partner controls all aspects of the work. Whereas female tend to be more comfortable with these situations, male do not. The idea to create own accounting firm is brought up by male auditor.

MA: “Someone can be a senior through their ability, without ability of auditing and accounting techniques; their salary will not change and won’t increase. If I have enough experience and capital someday maybe I will invite auditor partners who want to work together to open our own office”

It is interesting that female auditors gave a different response:

FA: “After getting married I quit the job because it always needed to travel to different city every week. Even, I had to work at the client’s office.”

CA: “I am married, but maybe I’ll quit if my husband later ask me to reduce works that include travel out of the city. Now, I am also working as a lecturer.”

Female auditors seem to be happier working with flexibility time for occupying other priority.

#### **4.4 Hetero Cultural-Society**

Earlier study by Bararoh and Yuliarini (2007) suggested that the ethnicity variable do not affect auditor’s performance significantly. It can be explained by the answers from FA and MA:

FA: “I had worked with people with different ethnicity. Because of in the accounting office of Mr. S all auditors were Javanese. There is only one from Bali.”

MA: “Yes, all are Javanese. The name firms are Mr. M, Mr. S & Ginting partnership”

CA: “I have enjoyed working as an auditor for a long this time. No problem with my ethnicity. My friends are Javanese and Batak tribe. It’s no problem. Often, if a client asks for the assessment ought to be done by a Chinese auditor. I’m glad to do and do not mention in teamwork.”

This sentence emphasizes that the number of auditors who work are assumed to be homogeneous and not a problem with other native tribes of Indonesia. Similarly, the mentioned MA about Ginting name is the family’s name of non-Javanese ethnic (tribal-Batak of North Sumatra).

They do not ignore the existence of other tribes in the scope of work. They accept the differences as part of a reformation process from ethnicity to the nation state in. The evidence came from CA answers that she did not feel to be an exclusively ethnic. Salim (2006) stated that the reform process in which each ethnicity is engaged in an intensive interaction pattern of the social interaction is known as a hetero-cultural society.

From the three categories of interviews, we obtained ten themes, from which we further generated five macro themes. The whole presentation can be seen in Table 2.

**Table 2: Thematic Presentation**

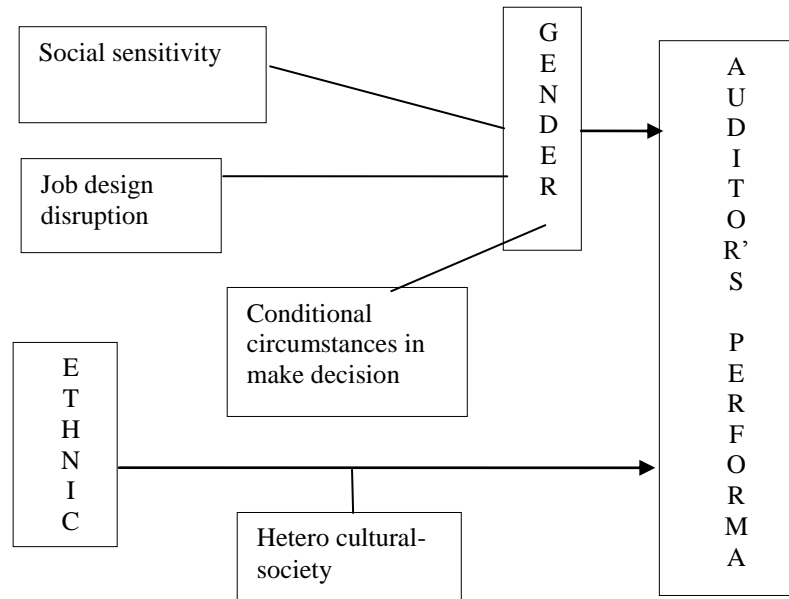
Category	Theme	Macro theme
Social sensitivity	Individual judgment beyond group judgement	Personal distraction
	Reluctant attitudes	
	Seniority bias	No transparently reward system
	4. Parity income bias	
Disruption of job design	Limited client relationship	Less obvious in fieldwork
	2. No career advancement	
Conditional circumstances in decision making	Timeline works	Strictly directive
	One man show	Unpleasant situation
	3. Hotel meetings or unsuitable places	
	Compromising made by the client	

Earlier studies by Bararoh, T. and S. Yuliarini (2007) found that the ethnicity did not have a significant effect on the performance of auditors. This occurred because of a reformation process from ethnicity hegemony to the nation state which influence the professional term. The process is an intensive social interaction pattern known as the hetero cultural-society. Borrowing Salim's term (2006), a hetero cultural-society is a norm from essence of variety culture that accept in particular society or in more popular term is a sense of belonging as a nation. Different work society will have different levels of hetero-culture. The cross-culture could happen in accounting firm as a part of the society. Ethnic diversity in Indonesia is not a factor that affects the competition amongst accountants to behave more professional than other ethnics.

## 5. Conclusions and Recommendations

Based on meta-analytic method, the researchers concluded that the cause of auditor female group rarely reaching the top position is that the partnership level in accounting firm is not caused by ethnicity and gender discrimination in the accounting firms rather individual aspects (personal perceives) and external factors (clients). There are three factors of these, which can be seen in Figure 1.

**Figure 1: Framework**



The first factor is social inclusion in their work environment that refers to social sensitivity. The social sensitivity of female auditors can be an obstacle when they want to reach a higher job position. It affects their capability to adapt them self with the work environment.

Social sensitivity is needed in the community aspect, but it is not expected to determine one's personal needs. Social interaction with the leadership should be implemented with an inclusive rather than exclusive approach. As a matter of fact, exclusive treatments lead to discrimination since the job should be done as a work team. The outcome of an exclusive treatment is limited. However, someone could be treated like a king-not as a king- by the real king.

The second factor is the job design disruption. The relationships between employees and their employer should be in mutual aspects. In order to work independent and maintain the objectivity. The auditor has a limited relationship with clients. But on the other hand, the auditor also should maintain the continuity of the work with a client for years. If not, then the client will switch to another public accountant. This sometimes gives the non-technical constraints to non-partner auditors who take in charge on the field, because the employment relationship is established by the partner not by the non-partner.

Female auditors are more persuasive in their communication with clients. Uniquely, they are still able to maintain audit's objectivity. They use different styles of communication than their male counterparts such as collecting evidence for a claim and trying to establish it for finally giving an explanation to the client. Male auditors tend to use an approach known as peer to peer discussion with the client of any audit findings before establishing their professional opinion.

The third factor is conditional circumstance on decision making. Auditors's works are very stressful as they have to complete the work as per letter of the contractual duties that should be done in one to two weeks. Often, they have to work overtime. Male auditors tend to be more flexible. They use peer-to-peer style at several places that allow work and discussions with clients including in hotels. Conversely, the female auditors prefer to be within the scope of formal and recognized places as in the client's office or take work home.

Furthermore, female auditors do not work for long enough as an auditor to reach a partnership level. They will be looking for a job in another industry that is more flexible in terms of time and work environment. In contrast, male auditors are more willing to work to reach the partnership level or find a way to open their own accounting firm.

Although using different approaches in their job, both male and female auditors work under a specified schedule set up by the partner and there is no compromise in term of time. The foregoing analysis of the initial research by Bararoh and Yuliarini (2007) showed that even though female auditor's team ethics score is higher than male auditor team, the head position of accounting firms are more often held by men as data from Directory of Accountant Firm (2001). This is due to three factors: 1) The inclusion of social issues in accounting firms, 2) Job design disruption in accountant firm, and 3) Getting inconvenience to decision making.

Therefore, each country has policy on foreign labor. Ethnicity matters may rise from the different policy in different country. Recommendation for future research is about in-depth effect of auditor's performance and the level hetero-cultural society with any group of auditor expatriate who does not assimilate with the existing work-place culture may be examined through experimental approach.

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