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Legitimacy Dynamics of Accounting Standards Setting: The Case of Indonesia

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By

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Abstract

"The continuing acceptance of accounting standard setting is a matter of managing legitimacy of the process of standard-setting in addition to, or perhaps, independently of, the technical characteristics of those standards" (Richardson and Eberlein, 2011, p.217)

Legitimacy is imperative for any organisational existence, particularly for any standards-setter as accounting standards are inherently subjective. They are neither right or wrong but generally agreed upon. Therefore, legitimacy is a prerequisite for acceptance in accounting standards rule-making. This research builds upon the works of Suchman (1995) on legitimacy to explore and compare legitimacy dynamics between conventional and Islamic accounting standards, particularly in cognitive biases embedded in accounting professional expertise and in religious beliefs in the development of accounting standards. The reason for adopting Suchman's (1995) work on legitimacy is his emphasis on the co-existence and inter-dependence of the evaluative and cognitive aspects of legitimation. Indonesia is selected as case study due to its unique accounting standards infrastructure, with the existence of dual and parallel standards setter for conventional and Islamic accounting standards development subordinated by the Indonesia Institute of Chartered Accountants (IAI), namely the Financial Accounting Standards Board (DSAK) and the Sharia Accounting Standards Board (DSAS). Conducting 34 semi-structure interviews and utilising thematic analysis, this research identifies three inter-linked bases for legitimacy, all of which are drawn from the interviewees' perceptions: i) the historical factors including the political and legal context; ii) due process and procedure; and iii) biases embedded in accounting profession and in religious beliefs. This research contends that cognitive biases based on religious considerations are stronger than biases based on professional considerations, that is beliefs based on divine laws and the trust to Islamic actors are stronger than the trust to accounting profession in accounting standards development.

Keywords: legitimacy, cognitive biases, accounting profession, religious considerations, conventional standards, Islamic standards

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Declaration of ownership and copyright

"Declaration: I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged."

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List of Abbreviations

AAAJ	: Accounting, Auditing and Accountability Journal
AAOIFI	: Auditing Organisation for Islamic Financial Institution
AcSB	: Canadian Accounting Standards Boards
AICPA	: American Institute of Certified Public Accountants
ASPM	: *Ahli Syariah Pasar Modal* / Sharia Capital Market Expert
ASR	: Accounting Series Release
BAPEPAM	*: Badan Pengawas Pasar Modal* / Capital Market Supervisory Agency
CICA	: Canadian Institute of Chartered Accountants
CL	: Comment Letter
CLERP	: Corporate Law Economic Reform Program
CPA	: Certified Public Accountants
DIFC	: Dubai International Financial Centre
DPS	: *Dewan Pengawas Syariah* / Sharia Supervisory Board
DSAK	: *Dewan Standar Akuntansi Keuangan* / Financial Accounting Standards Board
DSAS	: *Dewan Standar Akuntansi Syariah* / Sharia Accounting Standards Board
DSN	: *Dewan Shariah Nasional* / National Sharia Board
DSN-MUI	: *Dewan Shariah Nasional – Majelis Ulama Indonesia* / Sharia National Board – Indonesian Council of *Ulema*)
EFRAG	: European Financial Reporting Advisory Group
FAOIBFI	: Financial Accounting Organisation for Islamic Banks and Financial Institution
FRS	: Financial Reporting Standards
IAB	: India Accounting Board
IAI	: *Ikatan Akuntan Indonesia* / Indonesia Institute of Chartered Accountants
IAS	: International Accounting Standards
IASB	: International Accounting Standards Board
IASC	: International Accounting Standards Committee
ICAI	: Institute of Chartered Accountants of India

IFAC : International Federation of Accountants

IFI : Islamic Financial Institution

IFRIC : Interpretational Financial Reporting Interpretations Committee

IFRS : International Financial Reporting Standards

KPAI : *Komite Prinsip Akuntansi Indonesia* / Indonesian Accounting Principle Committee

LBS : *Lembaga Bisnis Syariah* / Sharia Business Institutions

LKS : L*embaga Keuangan Syariah* / Sharia Financial Institution

LPS : *Lembaga Perekonomian Syariah* / Sharia Economic Institutions

MUI : *Majelis Ulema Indonesia* / (Indonesian Council of Indonesian Ulama)

NHM *: Netherlandshe Handel-maatschappij* / Netherland Trading Society

NU : *Nahdlatul Ulama*

OJK : Otoritas Jasa Keuangan / Financial Services Authority

PAI : *Prinsip Akuntansi Indonesia /* Accounting Principle Indonesia

PROLEGNAS : *Program Legislasi Nasional* / National Program of Legislation

PSAK : *Pernyataan Standar Akuntansi Keuangan* / Statement of Financial Accounting Standards

PSAKS : *Pernyataan Standar Akuntansi Keuangan Syariah* (Statement of Financial Accounting Standards

SAK *: Standar Akuntansi Keuangan* / Financial Accounting Standards

SAS : *Standar Akuntansi Keuangan Syariah* / Sharia Accounting Standards

SEC : Security and Exchange Commission

SIC : Standing Interpretation Committee

UAE : United Arab Emirates

UK : United Kingdom

US GAAP : United States Generally Accepted Accounting Principles

US : United States of America

USSR : The Union of Soviet Socialist Republics

VOC : *Verenigde Oostindische Compagnie* / Dutch East Indies Companies

Glossary

Al-khulafa' al-rashidun	: Rightly guided caliph
Dasar Negara	: National Principle
Fatwa	: Islamic legal opinion by Islamic clergy
Fiqh	: Law
Ghara	: Gamble
Hadith	: Tradition of Prophet Muhammad PBUH
Iman	: Belief
Kalam	: Theology
Maisir / Qimar	: Uncertainty
Pancasila	: Five National Principles
Profit-sharing	: Method of financing instead of using a fixed interest rate, applies based on mutual-agreement among parties (lender and borrower) regarding financial activities
Qardh	: Financial activities without any mandatory profit-sharing value besides the principal amount agreed by the parties regardless the application of lump sum or instalment payment
Riba'	: Interest
Shadaqah	: Islamic term regarding voluntary charity
Shari'ah Islami'iah	: Islamic teaching
Siyasa	: Politics
Syirkah temporer	: Investment activities conducted by Islamic bank
Tafsir	: Exegesis
Ulema	: Islamic clergy

Waqf	: The transfer of wealth owned by a Muslim person primarily for community buildings such as schools, dormitories, orphanages and mosques
Zakat / zakah	: 2.5 percent annual compulsory tax imposed on all Muslims who are classified as not poor

Chapter 1. Introduction

1.1. Introduction

Accounting standards have profound societal impacts, and therefore standard setting process is worthy of critical examination (Burchell et al., 1985; Robson and Young, 2009). Accounting information has a major impact on human behaviour and economic decision-making of members of society. Consequently, accounting standards used to prescribe how this information is prepared affects the distribution of wealth among various members of society and, thus, has an impact on their welfare. As accounting standards have far-reaching economic and social consequences, many stakeholders and economic interests are formally or informally involved in the regulatory processes through which accounting standards are set (Mouck, 2004; Young, 1994). At the same time, the process through which stakeholders become involved in the regulatory process is inherently subjective, relating to one's own personal perception, in particular, the perception of being affected by the standards. As a consequence, accounting standards are neither right or wrong but generally agreed (Mouck, 2004) by those who are affected. Accordingly, the agreement is based upon the perception or assumption that accounting standards fulfil socially desirable criteria (Bengtsson, 2011; Kwok and Sharp, 2005). Thus, it is based on acceptance, and legitimacy is a prerequisite for the success of any regulatory body.

The present study seeks to expand the literature of legitimacy of the accounting standards-setting process, building upon the work of Suchman (1995) on complex evaluative and cognitive legitimacy dynamics, with a view to investigating the legitimation of accounting standards in both conventional and Islamic accounting contexts. This research uses Indonesia as a case study as it provides a unique opportunity to explore and contrast legitimation dynamics in these two contexts. This is because Indonesia has the unique duality of an accounting standards regime, where the Indonesian Institute of Chartered Accountants (IAI) consists of dual and equal standard boards, namely the Financial Accounting Standards Board (DSAK) and the Sharia Accounting Standards Board (DSAS). The reason for using Suchman's (1995) legitimacy theory is to consider both conscious evaluation dynamics as well as pre-reflexive dynamics i.e. cognitive legitimacy dynamics. Therefore, his words allow us to understand the stronger reason for acceptance as well as the cognitive biases present in legitimacy in the context of conventional and Islamic accounting regulations.

The introduction chapter is organised as follows. Section 1.2 discusses the theoretical foundation and objective of the study; section 1.3 describes the research scope and methodology employed; section 1.4 presents the research motivation and potential implications of this research for accounting standards; section 1.5 identifies the structure of the current study; and the final section concludes the chapter.

1.2. Theoretical foundation and objective of the study

The primary purpose of this study is to explore and contrast legitimacy dynamics of accounting standards setting between the conventional and Islamic standards-setting process. Accounting standards development are considered as crucial aspects not only to regulate the accountability of business institutions but also as affecting wealth distribution and the behaviour of society. Due to the vast array of implications for accounting standards, legitimacy becomes a most interesting subject to investigate the rationality of acceptance by its followers in the development of accounting standards.

This research used Indonesia as a case study because Indonesia has dual, equal and parallel accounting standards regimes, namely a sharia accounting standards board (DSAS) and a financial accounting standards board (DSAK). These two boards are subordinated by a single private accounting profession, namely the Indonesia Institute of Chartered Accountants (IAI). The financial accounting standards board (DSAK) is responsible for the development of conventional accounting standards, while the sharia accounting standards board (DSAS) is responsible for the development of the sharia[1] accounting standard. In Indonesia, IAI is the only accounting professional institution recognised both for organising accounting profession as well as regulating the development of accounting standards. Therefore, due to the unique structure of standards-setting in Indonesia, it provides an interesting insight of how legitimacy is perceived differently between the two standards-setters.

This research draws upon Suchman's (1995) legitimacy theory to investigate legitimacy dynamics, both legitimacy based on evaluative and cognitive aspects in both conventional

[1] This research applies the words “sharia accounting” and “Islamic accounting” interchangeably. The words in this thesis have a similar meaning presenting accounting standards based on Islam or accounting standards based on sharia.

and sharia accounting standards development. Suchman (1995, p. 574) described legitimacy as “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, belief, and definitions.” Suchman’s (1995) work on legitimacy theory provides a comprehensive perspective of legitimacy by providing different types of legitimacy through evaluation and pre-reflexive reason that is cognitive legitimacy. Thus, applying Suchman (1995) legitimacy theory, this research aims to unveil the dynamic relationship of legitimacy with the development of accounting standards setting in Indonesia.

This paper also seeks to compare the cognitive biases due to professional and religious reasons for both standards-setting processes. The study seeks to understand the role of the accounting profession in the development of accounting standards. Accordingly, the accounting profession is pre-reflexively accepted and taken for granted as being perceived as a trustworthy and knowledgeable institution with regard to their (accountants) professional status (e.g. Burns and Haga, 1977; Preston et al., 1995; Sikka et al., 1989). By combining both roles as accounting profession and regulator in accounting standards development, the Indonesia Institute of Chartered Accountants is perceived as an important actor, demonstrating a greater degree of taken-for-granted legitimacy in the accounting standards setting-process, which allows us to confirm the existence of cognitive biases due to professional considerations.

In contrast to conventional standards, Islamic accounting standards are developed based on an Islamic perspective rather than a secular one. Although conventional accounting standards takes into account ethical considerations, in Islamic accounting standards, religious background becomes the main source of sharia accounting standards (e.g. Baydoun and Willet, 2000; Hamid et al., 1993; Tomkins and Karim, 1987). Correspondingly, the development of sharia accounting standards arguably relies heavily on the presentation of religious considerations to support the development of accounting standards. Consequently, cognitive biases due to religious reasons are present in the development of accounting standards. Thus, the impact of religion and professionalism creates a unique perspective of how the legitimate building blocks of accounting standards-setting are affected by these two elements/factors.

In short, the primary objectives of the current study are as follows:

To explore and compare the evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standards-setting. In particular, to explore and compare cognitive biases that are embedded in professional expertise and religious beliefs.

1.3. Scope and methodology of the study

This research explores and contrasts legitimation dynamics of accounting standards development between conventional and Islamic accounting standards-setting. This research focuses on Indonesia standards-setting process due to the character of dual, equal and parallel standards-setting boards, namely the financial accounting standards board and the sharia accounting standards boards which represent conventional and sharia accounting standards, controlled respectively by the private accounting profession. Contextually, conventional accounting arguably presents the value of secularism in comparison to religious background in Islamic accounting. Thus, this thesis examines two research questions which refer to legitimacy dynamics and cognitive biases embedded in professional accounting expertise and religious beliefs. The research questions are:

1. What are the main drivers of evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standards-setting in Indonesia? What are the differences?
2. How different are cognitive biases embedded in professional expertise and religious beliefs and how do they influence the legitimation process in accounting standards-setting?

In order to answer the research questions of the study, a semi-structured interview method was employed. The three main interview questions constructed to obtain and understanding of both cognitive and evaluative aspects of legitimate dynamics of accounting standard setting:

1. What are the main factors/key players/institutional influences that you believe to have impacted (explicitly as well as implicitly) the development of accounting standards in Indonesia?
2. Could you elaborate further on the nature and sources of those influences, i.e. the official as well as unofficial authority that these factors have on the development of accounting standards?

3. How do you think conventional and Islamic regulatory process differ? What are, in your opinion, the underlying reasons for the differences?

The interviewees were selected using a mixed purposive sampling: convenient, snowball and criterion sampling (Patton, 2002, pp.243-244). A total of 34 interviews were conducted. Those interviewees represented six different groups: Academics (AC), Government Institution and Regulators (G), Preparers (P), and Audit Institutions (AU), Sharia Accounting Scholars (SAS) and Sharia Institutions (SI).

This research applies thematic analysis and the abductive approach by adopting Suchman (1995) legitimacy theory as a theoretical proposition. Suchman (1995) legitimacy theory is applied to identify the themes and the issues regarding legitimacy dynamics of accounting standard-settings as well as to identify the cognitive biases of professionalism and religious embedded in the standards-setting process.

1.4. Motivation and the potential implication of the study

The motivation for this study is to compare legitimacy dynamics in the accounting standard-setting process, in particular contrasting the legitimacy between the conventional and Islamic accounting standards-setting process. Accounting standards are considered as political aspects with far-reaching social and economic implications. Therefore, via legitimacy, the evaluation and pre-reflexive behaviour which is cognitive legitimacy provides the understanding of subjectivity of acceptance in accounting standards development.

As a result of the significant implication for accounting standards setting, the previous literature has comprehensively investigated political motives in accounting standards development. Previous research has identified the logic behind corporate participation due to future economic consequences (Larson, 1997; Puro, 1984; Watts and Zimmerman, 1978). In contrast, constituent background and diversity participation presents in previous studies such as: the diversity of actors involved based on certain standards-setting stages (Jorissen et al., 2012); the domination of academics from Anglo-Saxon countries in the development of international standards (Larson and Herz, 2011); the role of the accounting profession in presenting their status in the development of accounting regulation (Brown and Tarca, 2001; Harding and Mckinnon, 1997). In addition, previous research has also examined the effect of culture in the development of accounting standards such as: social values in relation to accounting standards (Gray, 1988); the association between accounting standards in developing countries and the types of accounting standards applies (Bing, 1998; Chow et al., 1995; Zhang and Andrew, 2015); the role of government and international funding agencies (Nurunnabi, 2015; Perera, 1989); and the effect of religion in the development of accounting standards (Hamid et al., 1993).

In addition to political context, legitimacy is fundamental to meet social expectation through acceptance in accounting standards development. Accordingly, previous research has investigated how legitimacy is perceived in accounting standards-setting such as: legitimacy due to geographic bias (Jorissen et al., 2013); standards setter action to proactively seeking input and response in accounting regulatory arena (Durocher and Fortin, 2010); integrated model of defining user perception in the standards setting process (Durocher et al., 2007); institutional legitimacy and authority challenges (Johnson and Solomons, 1984); the role of regulation in causing legitimacy (Schmidt, 2002); and legitimacy in the context of international standards-setting (Bamber and McMeeking, 2016; Larson, 2007; Pelger and Spieß, 2016; Richardson and Eberlein, 2011). Despite the fact that previous studies provide detail and that the vast range of literature in accounting standards-setting includes the importance of legitimacy perceived in the standards-setting process, the literature does not provide enough evidence to explore the difference in legitimacy between conventional and Islamic accounting standards-setting.

However, since the objective of this research is to compare legitimacy between Islamic and conventional accountings standards, this research also presents previous literature in Islamic accounting development. Islamic accounting standards arguably emerges as an alternative to conventional accounting standards. Islamic accounting emerges to accommodate the need for financial reporting for Islamic financial institution and Islamic transactions. Previous literature in Islamic accounting mainly focussed on the development of the theoretical foundations of Islamic accounting (Abdel-Magid, 1981; Mirza and Baydoun, 1999; Haniffa and Hudaib, 2002), ethics and social responsibility (Haniffa and Hudaib, 2007; Kamla et. al, 2006), an international regulator for Islamic financial institutions (Abdel Karim, 1995), and a historical perspective of Islamic accounting standards development (Napier, 2009). Due to the significant gap in research concerning the social aspect of Islamic accounting development, this research takes the lead in exploring the difference in legitimacy between conventional and Islamic accounting standards development. Furthermore, conventional accounting is developed based on the capitalist system; in contrast, Islamic accounting is developed based on the Islamic background. Contrasting between the two, this research applies Suchman's (1995) work on legitimacy theory since it presents detail the different types of legitimacy, namely pragmatic, moral, and cognitive legitimacy.

By using Indonesia as a case study, this research evaluates and compares legitimacy dynamics between conventional and Islamic accounting standards development. In Indonesia, IAI is the only organisation responsible for the development of accounting standards through its dual and parallel standards setter (DSAK and DSAS). Subsequently, as an authorised institution in accounting standards development, the acceptance and recognition of the accounting profession as a trustworthy institution is highly significant in the development of accounting standards. However, Islamic accounting standards are established based on different foundations compared to conventional standards, namely the religious background. By exploring and constrasting the legitimacy between Islamic and conventional standards, this research presents the the dynamics between evaluation and cognitive aspects in the two accounting regimes and, in addition, how religious and professional backgounds affect cognitive acceptance in the development of accounting standards development. Despite accounting standards development in Indonesia being the responsibility of the accounting profession, Islamic accounting standards development relies more on sharia considerations, in contrast to the accounting profession which relies more on conventional considerations.

Accordingly, using qualitative interviews approach and conducting thematic analysis, this research identifies three main themes of legitimacy in accounting standard settings, and contrasts legitimacy between sharia and conventional accounting standards-setting process. As a legitimate institution, the role of IAI as an accounting profession and Islamic considerations provide insights into how these two factors/elements affect the legitimacy of accounting standards-setting in Indonesia.

1.5. Structure of the study

The present study is structured as follows. This chapter is an introductory section which mainly presents the theoretical foundation, research scope and the implication of this research for accounting standards development. Chapter 2 presents the research background to the case study of Indonesia. Chapter 3 presents the literature review section that discusses the accounting standards setting as social practices both in conventional and Islamic accounting standards-setting. Chapter 4 presents the theoretical foundation of this research based on Suchman's (1995) legitimacy theory, which is linked to professional reasons and religious considerations. Chapter 5 discusses the research methodology and data collection process. Chapter 6 presents the empirical findings of this research, analysis and discussion of legitimacy. Lastly, Chapter 7 concludes the thesis by summarising the thesis, presenting the research contributions, avenues for future research and research limitations.

1.6. Conclusion

This chapter has delivered an outline of the research undertaken in the current study in the context of legitimacy dynamics and cognitive biases of the accounting standards-setting process. The main objective of this research is to explore and compare the evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standard settings, particularly to explore and compare cognitive biases embedded in accounting professional expertise and religious beliefs. This study uses Indonesia as a case study, since it provides a unique position of a dual, equal and parallel accounting standards regime, namely DSAK and DSAS subordinate of Indonesia Institute of Chartered Accountants.

The study intends to fill the gap by comparing legitimacy dynamics between conventional and Islamic accounting standards-setting. This research follows Gillis et al.'s (2014, p. 586) call for more research into the accounting standards-setting process "that answer and explain of what happened of accounting standards-setting process", particularly in the context of Islamic accounting development (Napier, 2009). In addition, this research also investigate the role of religious considerations in the development of accounting regulations (Hamid et al., 1993). Applying the work of Suchman's (1995) legitimacy theory, this research focuses on 1) the main drivers and differences of legitimacy in conventional and Islamic accounting standard setting in Indonesia, and 2) comparing the influence of cognitive biases based on professional expertise and religious beliefs.

Conducting 34 semi-structured interviews, the interviewees are divided into six groups: Academics (AC), Government Institution and Regulators (G), Preparers (P), Audit

Institutions (AU), Sharia Accounting Scholars (SAS) and Sharia Institutions (SI). To analyse interview data, this research applies thematic analysis to identify the legitimacy dynamics of standards-setting process.

Chapter 2. Background to the study: The case of Indonesia

2.1. Introduction

Chapter 2 presents an overview of the background on the accounting standard-settings in Indonesia. Section 2.1 provides a brief discussion of the chapter. Section 2.2 discusses the historical context of accounting standards-setting in Indonesia. Section 2.3 presents the development of accounting profession initiated in 1954 and continued until today. Section 2.4 explains that the structure of accounting standards in Indonesia includes actors who are responsible for the development of accounting standards and regulations which support the development of accounting standards. The last is Section 2.5 concludes the chapter.

2.2. Historical context of accounting development

In general, Indonesia is secular country even though the majority of the population is Muslim. Indonesia adopts five principles: i) the belief in One Supreme God; ii) a just and civilised humanity; iii) Indonesian unity; iv) popular democracy led by wisdom and implemented through deliberation and representation; and v) social justice for all Indonesians (Azra, 2013, p. 68). The five principles are named as *Dasar Negara* (national principles) or *Pancasila* (abbreviation of five national principles). *Pancasila* is accepted by all citizens, regardless of their religious and cultural backgrounds.

In the 13th century, Islam started to spread across the archipelago and Muslims (predominantly from the Middle-East and other South-Asian countries) began settling across coastal areas of Indonesia. Islam spread across the country through business interactions and assimilation between the indigenous people and Muslim traders. It is said that the spread of Islam in Indonesian archipelago was one of the most important events in Indonesian history (Sukoharsono, 1998).

According to Sukoharsono (1993b), the emergence of accounting in Indonesia during early Islamic civilisation (prior to Dutch colonisation[2]) was related to accounting for trading activities. The accounting approaches in this period were mainly to assist the

[2] According to Ricklefs (2001, p.32) Dutch initially came under VOC, in 1605 VOC began to occupied Moluccas Islands in East of Indonesia and starting their influenced across archipelago. In 1800, the VOC dissolved by Dutch government and all VOC possession become the property of the Dutch government (Ricklefs, 2001, p.144)

administration and help harbourmasters to organise taxes. During the Islamic period, Sukoharsono (1993b) described that tax collection was recorded periodically and collected for the royal court as revenue. Moreover, the financial calculations during Islamic period also applied for measuring Islamic charity or *shadaqah*[3] and *zakat*[4] (Sukoharsono, 1998).

Following the Islamic period, most of the Indonesian archipelago was under a Dutch company namely *Verenigde Oostindische Compagnie* (VOC) or the Dutch East Indies Company whose main purpose was to monopolise trading and maintain political authority (Sukoharsono and Gaffikin, 1993b). Subsequently, during Dutch colonisation, the role of monopoly and the standardising currency system in the Indonesian archipelago affected the establishment of new accounting techniques (ibid). In terms of commercial activities, VOC also provided calculation system matching between revenue and expense (ibid). Interestingly, according to Sukoharsono and Gaffikin (1993a) even though accounting regulations had existed since 1609, the application of these regulations was just for business controlling activities adopting dual-entry booking system (Sukoharsono and Gaffikin, 1993b).

The most interesting collection of documents relating to accounting regulation during colonial period is the colonial regulation of financial institutions in the early 1800s. As a result of this regulation, two major financial institutions namely *Netherlandshe Handel-maatschappij* (Netherland Trading Society / NHM) and the *Javache* Bank were established (Sukoharsono and Gaffikin, 1993a). In the 20th century, the rise of accounting and financial reporting was initiated by the application of accounting and the establishment of the state audit agency by the Dutch colonial government. The establishment of this institution aimed to help the colonial government control the operationalisation of Dutch corporations in Indonesia. Accordingly, the establishment of a governmental audit institution in the colony showed the emergence of greater financial complexity and the need for accounting instructors for controlling purposes (ibid).

The rise of accounting during the colonial period was also caused by the establishment of Dutch capital market. Sukoharsono and Gaffikin (1993a) identify the establishment of the

[3] *Shadaqah* is an Islamic term regarding voluntarily charity
[4] *Zakat/zakah* is a 2.5 percent annual compulsory tax impose on all Muslim who are identified as not poor (Abdel-Magid, 1981). The calculation of zakat is wealth that exceed the amount of necessary to satisfy the basic human needs is subject to 2.5 percent annual zakat regardless of whether the excess wealth is invested (Abdel-Magid, 1981).

capital market as due to the rise of foreign capital and the banking industry. The foreign capital came to establish new industries in the country through manufacture and agriculture. During the colonisation period Indonesia experienced an increase in industrialisation, thus creating the demand for accounting expertise. However, during 1910-1920, there was a lack of accounting knowledge in formal education (Sukoharsono and Gaffikin, 1993a). To overcome this disadvantage and fulfil the demand for accountants, foreign accountants from the UK and the Netherlands were sent to Indonesia (ibid).

Following the Netherlands' colonial rule, Japan occupied the Indonesia archipelago for three years (1942-1945). During this occupation, the Japanese allowed for reformation of Indonesian society by allowing society to serve in public services, including the reorganisation of qualified professions such as accounting (Irmawan, 2010).

2.3. Development of the accounting profession

Following Indonesia's proclamation of independence on August 17, 1945, an Indonesian government was established, and the heads of government and ministers were selected to maintain public order. With regard to the economic succession after the Dutch and Japan colonisation, most Dutch companies were nationalised by the government in order to claim the economic benefits (Sukoharsono and Gaffikin, 1993a).

Subsequently, the government enacted Government Act Number 34, 1954 to regulate corporations and to maintain the role of accountability in business activities. The enactment of Act Number 34, 1954 established a higher education system to promote the accounting profession, namely the 'accountant'. Therefore, this regulation marked the professional status of accountants in the nation and recognised an accountant as a professional institution.

Act Number 34, 1954 acknowledged the importance of education for accountants and as the underlying reason for the construction of an accounting profession. According to Ministry of Education, Teaching and Culture (1954) in *Undang-Undang Republik Indonesia Nomor 34 Tahun 1954 Tentang Pemakaian Gelar 'Akuntan' (1954)* (Indonesian Act Number 34, 1954 regarding the use of the title "Accountant"), an accounting degree is awarded by state universities or other higher institutions established or recognised by the government. This Act ensures that those who wish to pursue an accounting degree and become a professional in accountancy should be educated in Indonesia's higher education institutions. The explanation section of Act Number 34, 1954 explained the need for this regulation to be implemented in society, the hope is that this profession will help society to resolve their financial problems and assist business institutions that are facing increased competition. Act Number 34, 1954 becomes the first recognition for accountants as professional institutions in Indonesia and later acts as the legal reason for the establishment of Indonesia Institute of Chartered Accountants in 1957.

In 2014, the Ministry of Finance and the Ministry of Education and Culture worked together to further support, and provide a legal endorsement, for IAI through the Ministry of Finance Regulation Republic of Indonesia Number 25/PMK.01/2014 regarding National Accountant Register *(Peraturan Menteri Keuangan Republik Indonesia Nomor 25/PMK.01/2014 Tentang Akuntan Beregister Negara*)[5]. The PMK 25/PMK.01/2014 Regarding National Accountant Register was enacted not only to endorse and support previous regulations (Act Number 34, 1954), the PMK (25/PMK.01/2014), it also replaced another regulation, the Decision of Ministry of Finance, Republic of Indonesia, Number 331/KMK.017/1999 Regarding the Registration Organisation of Accountants for the National Register (*Keputusan Menteri Keuangan Nomor 331/KMK.017/1999 Tentang Penyelenggaraan Pendaftaran Akuntan Pada Register Negara*). The replacement of the previous regulation (331/KMK.017/1999) was to assist the development of the accounting profession to face the globalisation challenges which lay ahead (Ministry of Finance, 2014b). In addition, this regulation regulates and ensures that all accountants are registered by the Ministry of Finance.

Following the PMK 25/PMK.01/2014 Regarding National Accountant Register, on 17 June 2014 the Minister of Finance issued a decision to support PMK 25/PMK.01/2014 named as Decision of the Ministry of Finance, Republic of Indonesia, Number 263/KMK.01/2014 regarding the Indonesian Institute of Chartered Accountants as a Professional Accountant Association (*Keputusan Menteri Keuangan Republik Indonesia Nomor 263/KMK.01/2014 Tentang Penetapan Ikatan Akuntan Indonesia Sebagai Asosiasi Profesi Akuntan*).[6] The KMK 263/KMK.01/2014 states that the Minister of Finance should promote and provide legal endorsement for one association from the

[5] In order to simplify the name of this regulation, the name is written as PMK 25/PMK.01/2014.
[6] In order to simply the name of this regulation the name is written as KMK 263/KMK.01/2014.

accounting profession; this association is the Indonesian Institute of Chartered Accountants. The reason for this is that IAI has all the necessary requirements to be enacted as a single professional institution in Indonesia (Ministry of Finance, 2014a).

Besides the Ministry of Finance, the Ministry of Education and Culture also provides a legal endorsement of IAI, namely Ministry of Education and Culture, Regulation Number 153, 2014 regarding the organisation of the Educational Programme for the Accounting Profession (*Peraturan Menteri Pendidikan dan Kebudayaan Republik Indonesia Nomor 153 Tahun 2014 Tentang Penyelenggaraan Pendidikan Program Profesi Akuntan*). This ministry recognised IAI's educational programme and enacted specific regulation relating to the accounting profession education programme. The regulation describes an accountant's professional education as an education post-bachelor degree focused on the accounting field (Ministry of Education and Culture, 2014). This regulation legitimised IAI as the sole institution able to hold and organise professional education for accountants. Although higher education institutions in Indonesia are capable of providing professional education, the regulation has the power to take away their authorisation in the event of non-cooperation with IAI.[7]

Below is a list of government regulations regarding the accounting profession in Indonesia:

TABLE 2.1. LIST OF REGULATIONS REGARDING ACCOUNTING PROFESSION

Number	Name	Year	Issuer	Topic
1.	Indonesian Act, Number 34, 1954 regarding the application of an Accounting degree (*Undang-Undang Republik Indonesia Nomor 34 Tahun 1954 Tentang Pemakaian Gelar 'Akuntan', 1954)*	1954	Ministry of Education, Teaching and Culture, Republic of Indonesia	Recognition of "accountant" as professional title and regulation of accounting education

[7] For higher education to organise accounting profession education, should be cooperate with IAI. Specifically, the lecture who involve in this program should has IAI professional membership.

2.	Ministry of Finance Regulation, Republic of Indonesia, Number 25/PMK.01/2014 regarding the National Accountant Register (*Peraturan Menteri Keuangan Republik Indonesia Nomor 25/PMK.01/2014 Tentang Akuntan Beregister Negara*)	2014	Ministry of Finance	Government legal support for the accounting profession and the use of national registered accountant(s)
3.	Decision of the Ministry of Finance, Republic of Indonesia, Number 263/KMK.01/2014 regarding the Indonesian Institute of Chartered Accountants as a professional accounting association (*Keputusan Menteri Keuangan Republik Indonesia Nomor 263/KMK.01/2014 Tentang Penetapan Ikatan Akuntan Indonesia Sebagai Asosiasi Profesi Akuntan*)	2014	Ministry of Finance	Government legal support for the Indonesia Institute of Chartered Accountants as an accounting profession recognised by the government

4.	Ministry of Education and Culture, Regulation Number 153, 2014 regarding the organisation of a Professional Accountant Educational Programme (*Peraturan Menteri Pendidikan dan Kebudayaan Republik Indonesia Nomor 153 Tahun 2014 Tentang Penyelenggaraan Pendidikan Program Profesi Akuntan*)	2014	Ministry of Education and Culture	Government legal support for IAI professional education

2.4. Development of Islamic accounting standards

The development of Islamic accounting standards in Indonesia can be traced back to when Indonesia first allowed and recognised the adoption of a profit-sharing[8] system in the banking industry through Banking Act. No. 7, 1992[9] (Suandi, 2013). The enactment of the profit-sharing banking system initiated the establishment of Islamic Banking operation in Indonesia. The adoption of an Islamic banking system shows a growing global trend in the Islamic world, including Indonesia, because of the awareness of the prohibition of *riba* (interest). Following this regulation (Banking Act No. 7, 1992), the first profit-sharing bank established was *Muamalat* Indonesia, which was opened in 1991 (Suandi, 2013).

In 2008, the new Islamic banking regulation was enacted and named as Act Number 21, 2008 regarding Sharia Banking (*Undang-Undang Republik Indonesia Nomor 21 Tahun*

[8] Profit-sharing banking system was initiated as alternative banking system in Indonesia compare to conventional banking system that based on interest. Profit-sharing is method of financing instead of using interest on fixed rate, applies based on mutual agreement among parties (lender and lendee) regarding financial activities. The money should be returned according based on specific time framed with specific amount of profit-sharing value.

[9] Act of Republic of Indonesia number 7, 1992 regarding banking later replaced by Act of Republic of Indonesia Number 10 of 1998.

2008 Tentang Perbankan Syariah). This regulation regulates the development of the sharia banking system which is notably different to the conventional banking system. This regulation replaced previous regulation, namely Banking Act. No. 7, 1992. Therefore, the new act's (Act Number 21, 2008 regarding Sharia Banking) clear purpose is to regulate the sharia banking system.

In terms of the accountability of the sharia banking system, Sharia Banking Act. No. 21, 2008 specifies that sharia banks and *Unit-Usaha Syariah* (sharia business units) should report their financial statement according to the "general accounting principle" and "other periodic reporting principles" (Ministry of Law and Human Rights, 2008). The meaning of "general accounting principle" is defined as accounting standards promulgated by an authorised institution (ibid).

1. In terms of Islamic accounting standards, DSAK developed PSAK 59 accounting for sharia banking in 2002. The PSAK 59 provides assistance for Islamic banks in Indonesia to report their financial statements based on the Islamic perspective. Before PSAK 59 was issued by DSAK, the financial reporting system of Islamic banks did not directly report accounting standards based on Islamic perspectives. Instead, Islamic banks applied conventional accounting standards such as the Financial Accounting Standards Number 31 (PSAK No. 31) which applies to conventional banking industry (Suandi, 2013). Since 2002, there have been 13 sharia accounting standards developed by standards setter in Indonesia. Below are the details of these sharia accounting standards:

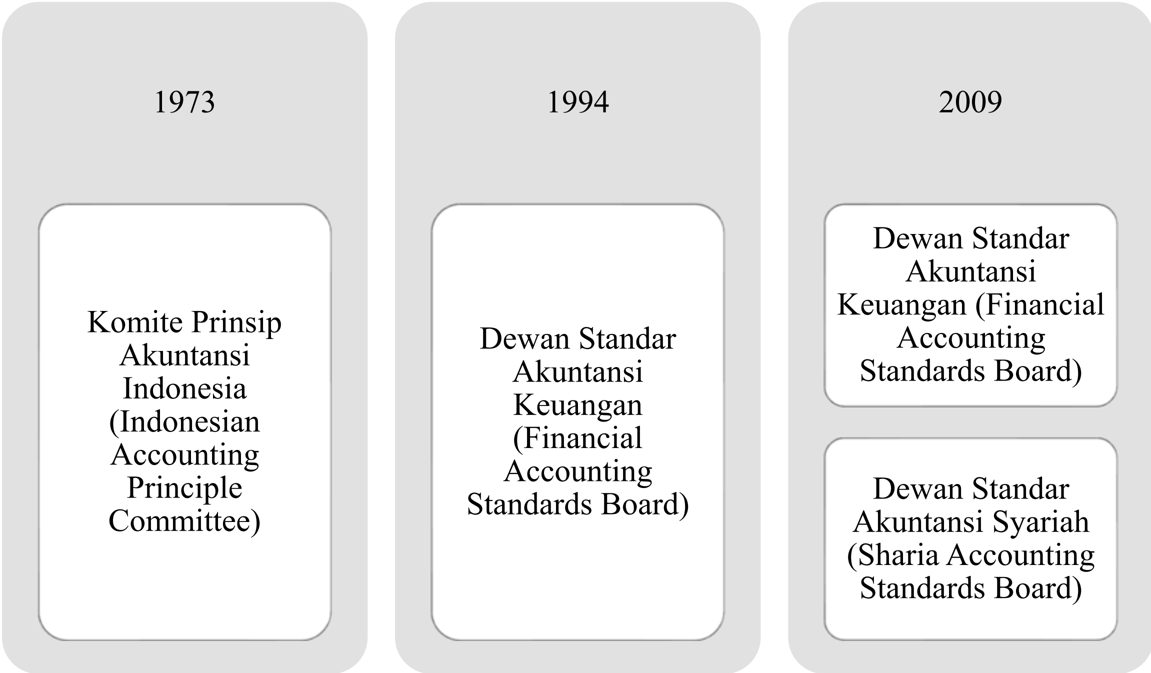
TABLE 2.2 LISTS OF ISLAMIC ACCOUNTING STANDARDS

Accounting standards code	**Accounting standards name**	Notes
PSAK 59	Accounting for Sharia Banking	
PSAK 101	Presentation of Sharia Financial Reporting	
PSAK 102	Accounting for *Murabahah*	Sales mark-up contract
PSAK 103	Accounting for *Salam*	Salam is a forward financing transaction

PSAK 104	Accounting for *Istishna*	Contract of future manufacturing product
PSAK 105	Accounting for *Mudharabah*	Profit sharing contract in which one party provides the resources (funds) and the other acts as the management
PSAK 106	Accounting for *Musyarakah*	Partnership between parties
PSAK 107	Accounting for *Ijarah*	Leasing agreement between parties; this requires the lessee to used asset own by the lessor in a certain time and for agreed upon price between parties
PSAK 108	Accounting for Syariah Insurance Transaction	
PSAK 109	Accounting for Zakah/ *Shadaqa*	Islamic charity
PSAK 110	Accounting for *Sukuk*	Islamic financial certificate
PSAK 111	Accounting for *Wa'd*	Promise of future transaction
PSAK 112	Accounting for *Wakaf*	Endowment (particularly land) for the social benefit (religious, orphanage, school)

Over time, as the standards setter of sharia accounting standards, DSAK has transformed its infrastructure to accommodate the rise of sharia transactions. In 2005, DSAK established a sharia committee within DSAK as part of a regulatory body in IAI to regulate Islamic banking which has developed rapidly (Suandi, 2013). By 2009, *Dewan Pengurus Nasional IAI* (National Management Board of IAI) established *Dewan Standar Akuntansi Syariah* (DSAS/Sharia Accounting Standards Board) as separate from DSAK (Kartikahadi et al., 2012, pp.18-19). The creation of DSAS was caused by the complexity of sharia transactions and the rise of responsibility of DSAK in accounting standards development.

FIGURE 2.1. TRANSFORMATION ACCOUNTING STANDARDS-SETTER FROM 1973-2009 IN INDONESIA



The membership of DSAS is comprised of a similar representation as DSAK, with additional representation from Islamic scholar through Sharia National Board (*Dewan Syariah Nasional* / DSN). Furthermore, in terms of sharia accounting standards, DSAS relies heavily on DSN, and each accounting regulation from the DSAS should be approved by the DSN[10] (National Sharia Board) in order to be labelled in accordance to Islamic principles (Suandi, 2013).

Although there is an international accounting standards setter for Islamic financial institution, namely the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)[11], DSAS prefers to develop its Islamic accounting standards on its own. DSAS Islamic accounting standards is focused on regulating sharia transactions, while AAOIFI's objective is to regulate Islamic Financial Institution (Suandi, 2013). In terms of Islamic accounting standards infrastructure, Suandi (2013) summarises the

[10] The role of DSN in accounting standards development discuss in Chapter 4 theoretical foundation
[11] AAOIFI, established in 1991, is Bahraini based non-profit accounting standards-setter objectively for the development of accounting standards for Islamic Financial Institutions (IFIs) world wide

different between Islamic accounting standards in Indonesia compared to other countries from the Asian-Oceanian Standard-Setters Group (AOSSG) (2011):

TABLE 2.3. THE APPLICATION OF ISLAMIC ACCOUNTING STANDARDS BY COUNTIES AND JURISDICTION

Country	Q1	Q2	Q3	Q4	Q5	Q6
Dubai	IFRS	Yes	Yes	Yes	AAOIFI standards	We may need review some of requirement of Islamic accounting standards
Indonesia	National standards based on IFRS	Yes	Yes	Yes	National standards not based from AAOIFI	We will retain our Islamic accounting standards
Malaysia	National standards based on IFRS	Yes	No	No		
Pakistan	IFRS	Yes	No	Yes	National Islamic standards adopted from AAOIFI standards	We will retain our Islamic accounting standards
Saudi Arabia	Banks and other Insurance follow IFRS; other entities follow SOCPA[12]	Yes	No	No	National standards not based on AAOIFI standards and other (No separate standards for	

[12] Saudi Organization for Certified Public Accountants (SOCPA)

					Islamic accounting)	
South Africa	IFRS	Yes	No	Yes	AAOIFI standards	We may need review some of requirement of Islamic accounting standards
Syria	IFRS	Yes	Yes	Yes	AAOIFI standards	We may need review some of requirement of Islamic accounting standards

a. Q1: What financial reporting standards are generally applied in entities in your country?
b. Q2: Does your jurisdiction have a policy of convergence, or adopting the IFRS?
c. Q3: Do you consider applying different financial reporting standards for entities engaged in Islamic finance to be compatible with IFRS convergence/adoption?
d. Q4: Do special financial reporting standards apply to entities engaged in Islamic finance in your jurisdiction?
e. Q5: What type of Islamic accounting standard applies in your jurisdiction?
f. Q6: More and more countries are converging with or adoption IFRS. How does this affect your policy on Islamic accounting standards?
Source: Suandi (2013)

In addition, the user of Islamic accounting standards differs in comparison to conventional accounting standards. According to the conceptual framework of sharia accounting standards (*Pernyataan Standar Akuntansi Keuangan Syariah*) / PSAKS), *Dewan Standar Akuntansi Syariah* (2013) describes the users of sharia accounting standards: investors, both current and potential; the owner of the fund (*qardh*)[13]; the owner of *syirkah temporer*[14] investment fund, the owner of deposit fund, payer and recipient of zakat, Islamic charity, waqf;[15] shariah supervisory; employees; supplier; customer, government institutions; and society. On the other hand, the definition of the user according to conventional accounting standards in Indonesia includes the following:

[13] *Qardh* means financial activities without any mandatory profit-sharing value besides the principal amount agreed by the parties regardless of lump sum or instalment (Bank of Indonesia, 2005).
[14] *Syirkah temporer* refers to investment activities conducted by Islamic bank.
[15] The transfer of wealth owned by a Muslim person is primarily for community building such as a school, dormitory, orphanage and mosque.

current investor and future investor; employees; lender; supplier and creditor; buyer; government institution; and society *(Dewan Standar Akuntansi Keuangan*, 2014).

As an authorised institution, DSAK and DSAS have similar roles for the the development of accounting standards. According to *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) of IAI organisational rules (*Peraturan Organisasi Ikatan Akuntan Indonesia Tahun* 2013), the tasks and roles of DSAK and DSAS consist of formulation, development and endorsements of: (i) a conceptual framework for financial statements; (ii) statements of financial accounting standards; (iii) interpretation of accounting standards; (iv) statements of revocation of accounting standards, technical bulletins, and other products of accounting standards. The differences between the two are that DSAK mainly focuses on conventional businesses, whereas DSAS focuses on sharia transactions (Syariah, 2011).[16] Another difference between DSAK and DSAS is that DSAK is also responsible for developing accounting standards for non-public ownership enterprises.

2.4. The duality of infrastructure in accounting standards-setting

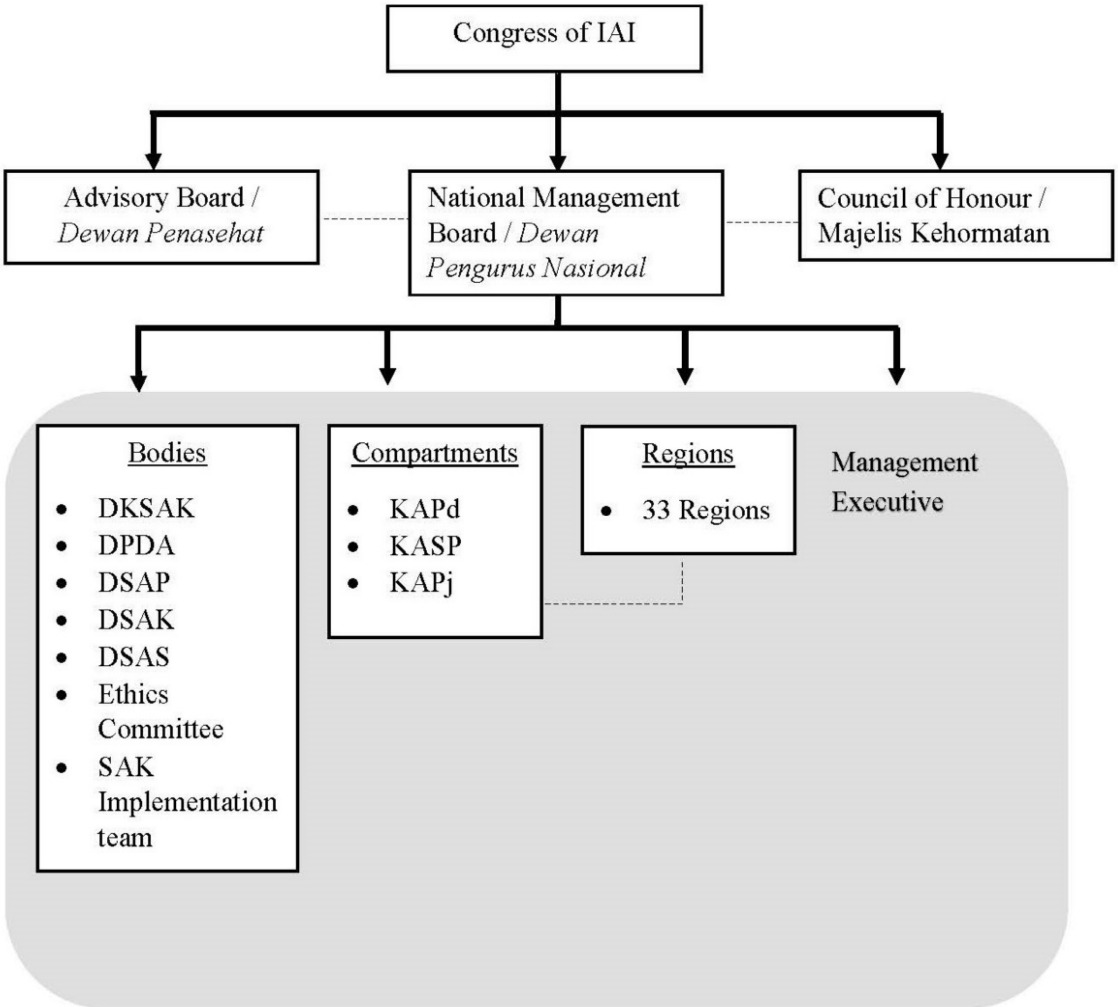
IAI is well known as a professional association for accounting profession in Indonesia. It is the oldest accounting profession in Indonesia and the only one acknowledged by the government. IAI was established on 23 December 1957 with the objective to guide the development of accounting and to increase the quality of accounting education as well as to enhance accounting employability (Ikatan Akuntan Indonesia, 2016)

Interestngly, in addition to being responsible for the development of accounting profession, IAI is also responsible for accounting standards development. According to *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) of IAI rules of the organisation in 2013 article number 29 describes that DSAK and DSAS should periodically report their activities to National Executive Board of IAI. For accounting standards development, IAI also hosts dual and equal standards setter, namely DSAK and DSAS. Therefore, through its infrastructure of accounting standards setting, it depicts that IAI controls every aspect regarding accounting practices in Indonesia.

[16] By 2011, DSAS issued PSAK 101 presentations of sharia financial statements, this regulation replaced the similar PSAK 101 issued on 2007. According to PSAK 101, the implementation of PSAK Syariah is for financial statements of sharia entity involving sharia transaction in their activity.

Figure 2.2 below presents IAI infrastructure of accounting standards setting, including DSAK and DSAS.

FIGURE 2.2. STRUCTURE OF ACCOUNTING STANDARDS-SETTING IN INDONESIA



Source: Ikatan Akuntan Indonesia (2018a)

In addition, the structure of standards-setting in Indonesia is unique compared to other countries. Below Table 2.3 presents a standards setter comparison between G20 countries.

TABLE 2.4. STANDARDS-SETTER COMPARATION BETWEEN G20 COUNTRIES FOR ACCOUNTING-STANDARDS SETTING

Countries	Standards-setting board	Types of Institution
Argentina	The Argentinean Accounting and Auditing Standards Board (CENCyA)	Part of the Argentinean Federation of Professional Organisations of Economic Sciences
Australia	The Australia Accounting Standards Board (AcSB)	Part of a government agency
Brazil	The Brazilian Accounting Pronouncements Committee (CPC)	Independent accounting profession
Canada	The Accounting Standards Board Canada (AcSB)	Independent institution and supervised by the Chartered Professional Accountants of Canada
China	Accounting Regulatory Department, Ministry of Finance, People's Republic of China	Part of a government agency
European Union	European Financial Reporting Advisory Group (EFRAG)	Independent institution representing the EU in IFRS standards development
France	The Accounting Standards Authority (ANC)	Supervised by the French government
Germany	The Accounting Standards Committee of Germany (ASCG)	Independent institution and acknowledged by law
India	Accounting Standards Board of India	Part of the Institute of Chartered Accountants of India
Indonesia	Financial Accounting Standards Board (DSAK) and Sharia Accounting Standards Board)	Part of Indonesia Institute of Chartered accountants

Italy	Italian Accounting Organisation (OIA)	Independent institution
Japan	The Accounting Standards Board of Japan (ASBJ)	Private institution and part of Financial Accounting Standards Foundation and supported by government institution
Mexico	The Mexican Financial Reporting Standards Board (CINIF)	Independent profession
Russia	The Ministry of Finance of the Russian Federation (MoF)	Part of a government agency
Saudi Arabia	Saudi Organization for Certified Public Accountants (SOCPA)	Independent accounting profession
South Africa	The Financial Reporting Standards Council (FRSC) (part of government institution)	Part of a government agency
South Korea	Korea Accounting Standards Board (KASB) (appointed by the Financial Service Commission)	Independent institution
Turkey	Public Oversight, Accounting and Auditing Standards Authority (KGK) (a governmental and non-profit regulator)	Part of a government agency
United Kingdom	Financial Reporting Council (established by law)	Independent institution and established by law
United States	Financial Accounting Standards Board	Independent institution that is recognised and supervised by Security and Exchange Commission

The position of DSAK and DSAS is unique due to their structure, as is presented in Table 2.4, compared to other countries. Accordingly, the Indonesia Institute of Chartered Accountants host two accounting standards boards, namely DSAK and DSAS.

In general, accounting standards in Indonesia can be divided into four primary parts based on transaction characteristics and the subject of the preparer, namely the financial accounting standards for: (i) public entities, (ii) private entities (iii) sharia transactions and (iv) governmental institutions. Financial accounting standards for private and public companies are promulgated by the Financial Accounting Standard Board and the Sharia Accounting Standard Board of which both are under the IAI (Kartikahadi et al., 2012, p. 8). Accounting for government institution is developed by the Ministry of Finance, while IAI is responsible for accounting standards development for non-government institutions.

Indonesia's accounting standards emerged in 1973 after IAI formed a body with the purpose of creating accounting standards, namely the Indonesian Accounting Principle Committee (IAPC) (Kusuma, 2005, p. 356). Prior to this, Indonesia did not have any official regulation or commitment to abide to any particular accounting standards. However, the accounting profession in Indonesia at that time followed both foreign accounting standards such as the U.S or Netherlands accounting standards (Kartikahadi et al., 2012, p. 4). According to Kusuma (2005, p. 356), since the 1960s Indonesia has been using international standards from other countries. Authority organisation specialising in accounting standard process had not yet been established (prior to 1973) by the IAI, and the standards that were adopted lacked a conceptual framework. After the establishment of IAPC, accounting standards which were based on foreign standards were revised according to the Indonesian context. In general, although the standards issued were translated from foreign standards, mostly US ones, they placed emphasis on local Indonesian values. In 1972, Radius Prawiro, as IAI chairman, collaborated with the capital market authority and created a committee to collect materials for the development accounting standards and auditing principles (Kartikahadi et al., 2012, p. 14). The establishment of IAPC subsequently created Indonesia's Principles of Accounting (*Prinsip Akuntansi Indonesia* / PAI). The standards are collected and referenced from various sources, namely: accounting principles from the national directory, statements and opinions of accounting principle boards, research bulletins, Australian and Dutch accounting standards and U.S. accounting standards (Kartikahadi et al., 2012, p. 14-15; Kusuma, 2005, p. 356).

For two decades from 1973, the development of accounting standards in Indonesia was translated from United States Generally Accepted Accounting Principles (US GAAP) (Kusuma, p. 356). In 1994, IAI was committed to harmonising the PSAK into the

International Accounting Standards (IAS) (ibid, p. 357). The shift away US GAAP standards towards IAS standards also changed the structure of standard setters from IAPC into *Komite Prinsip Akuntansi Indonesia* (Indonesian Accounting Principle Committee/ KPAI) (ibid). The new KPAI then replaced the Indonesia Principle of Accounting into *Pernyataan Standar Akuntansi Keuangan* / PSAK (Statement of financial accounting standards), and by 1998 KPAI had changed into the *Dewan Standar Akuntansi Keuangan / DSAK* (Financial Accounting Standards Board) (ibid).

Indonesia decided to converge with the IFRS in 2008 when Indonesia's Institute of Chartered Accountants announced this decision (Maradona and Chand, 2014). DSAK as an authorised institution decided to stage the adoption of IFRS on a step-by-step basis using years-gap adoption style (Wahyuni and Lay, 2010). During the early commitment to the IFRS convergence, Indonesian standard setter (DSAK) explained that the convergence would have a three-year gap between PSAK and IFRS standards. This meant that the standards that were applied on 1 January 2012 were equal to the IFRS standards and were effectively applied on 1 January 2009 (Foundation, 2017; Wahyuni and Lay, 2010). The decision to have a three-year gap was then changed in 2015 when DSAK decided to adopt the second stage of convergence by reducing the length of the gap into a one-year gap between IFRS and PSAK.

As standards setters, DSAK and DSAS have similar criteria in selecting members of the board. As described by *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) of IAI organisational rules 2013 article 22, each member of DSAK and DSAS should meet the following qualities:

> "Have knowledge of accounting and financial reporting, intellectual capacity, integrity, and discipline, judicial temperament, be willing to work in a collegial environment, have communication skill, understanding of the business environment, commitment towards DSAK/DSAS, be willing to devote time voluntarily as member of DSAK/DSAS, and to prioritise and uphold the image of the accounting profession and purpose in order to develop high quality financial reporting" (*Dewan Pengurus Nasioinal Ikatan Akuntan Indonesia*, 2013)

In addition, according to *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) in IAI organisational rules 2013 article 2, the membership of DSAK and DSAS consist of:

> "i) a total of 17 members of DSAK and DSAS consisting of 1 chairman, 2 chairman and 14 members; ii) The members of the board are appointed and replaced by DPN (Dewan Pengurus Nasional / National Management Board of IAI) as consulting with DKS (*Dewan Konsulatif Standar* / Standards Consultative Board); iii) DPN is responsible for the seletion process; iv) DPN is allowed to ask DKS and DSAK/DSAS in nominating someone; v) DSAK and DSAS have a 4 years-long working period; vi) with regard to sustainability of accounting standards development, the selection of DSAK/DSAS member is conducted in stages; vii) within one period, no more than 8 members can be replaced; viii) DPN allows to extend by 2 years DSAK/DSAS board member as consulting to DKS" (*Dewan Pengurus Nasioinal Ikatan Akuntan Indonesia*, 2013)

Furthermore, DSAK and DSAS board members should meet the following individual requirements before being appointed:

> "a) individual based on their capacity (does not represent any organisation); b) official representation from government institution, business association, non-government institution that are interested in conventional accounting standards development or sharia accounting standards development; c) no more than one person represent institution or agency as member of DSAK/DSAS; d) government institution, business association and non-government institutions that are represented in DSAK/DSAS should be determined by DPN (Dewan Pengurus Nasional / National Management Board of IAI) as consulting with DKS (*Dewan Konsulatif Standar* / Standards Consultative Board)" (*Dewan Pengurus Nasioinal Ikatan Akuntan Indonesia*, 2013)

As a professional institution that maintains its professional status and code of ethics, DSAK as part of IAI follows due process and procedure to ensure high-quality accounting standards. Consequently, according to *Dewan Pengurus Nasioinal Ikatan Akuntan Indonesia* (2013) article 26 of the IAI organisational rules, the due process of conventional and sharia standards is presented as follows:

1. issue / topic identification
2. issue / topic consultation with DKS
3. conducting limited research

4. material discussions of Standar Akuntansi Keuangan (SAK) / Standar Akuntansi Syariah (SAS)
5. publication of exposure drafts
6. conducting public hearings
7. conducting limited hearings
8. discussions of public input
9. publication of SAK/SAS

In addition, capital market is one key reason for supporting the development of accounting standards in Indonesia. Capital market in Indonesia was established in 1976 under President Soeharto through Presidential Decree No. 52/1976 (Kusuma, 2005, p. 350). During the 1990s, the government issued two more decrees: Presidential Decree No. 53/1990 and the Minister of Finance Decree No. 1548/1990 which led to the establishment of capital market authority, namely *Badan Pengawas Pasar Modal* (Capital Market Supervisory Agency / *BAPEPAM*) (Kusuma, 2005, p. 350). The responsibilities of BAPEPAM is to supervise the fairness and protecting investor and public interest (ibid, pp.350-351). In 2011, *BAPEPAM* was replaced by Financial Services Authority (*Otoritas Jasa Keuangan* / OJK) to supervise the capital market. OJK's duties include performing regulatory and supervisory duties over financial service activities in banking, capital markets and non-banking financial industries sectors (Keuangan, 2017).

Capital market regulation become one of the key factors prompting users to follow accounting standards development by the IAI in Indonesia. Capital Market Act article 69, Number 8, 1995 (*Undang-Undang Pasar Modal Nomor 8 Tahun 1995*) declares that it is mandatory for public companies to declare their financial reporting to *BAPEPAM* and that the report should be based on the "general acceptance of accounting principles" (Ministry of State Secretariat*,* 1995). Furthermore, in Article 69, "the general acceptance of accounting standards" is defined as financial accounting standards established by the Indonesian Institute of Chartered Accountants and other accounting standards customary to the capital market (Ministry of State Secretariat*,* 1995). Following the capital market act, another regulation was enacted by Ministry of Law and Human Right that is Limited Liability Company Act Number 40, 2007 (*Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas*). This regulation states every company should report its financial activities at least once a year. The financial report should comply with the financial accounting standards published by “accounting profession” or “common accounting practices” exists in capital market (Ministry of Law and Human Rights, 2007).

Following the dissolution of *BAPEPAM* and the establishment of OJK, OJK retained all of BAPEPAM’s regulations including regulation which pertained to accounting standards. Another regulatory issue denoting accounting standards is *BAPEPAM* regulation number VIII.G.7, which relates to the presentation and disclosure of the financial statements of public companies. According to *Modal* (2012), the VIII.G.7 regulation addresses the application of Financial Accounting Standards (*Standar Akuntansi Keuangan* / SAK) for all public companies, including statements and interpretations from DSAK and DSAS of IAI as well as all the regulations from *BAPEPAM*. Furthermore, for this reason it provides a clear picture of the leading actor in Indonesia in accounting standards development, which is IAI via DSAK and DSAS regulating conventional and Islamic accounting standards, respectively. Figure 2.3 below depicts government support for the accounting standards-setting process in Indonesia.

FIGURE 2.3. GOVERNMENT ACTS SUPPORT OF ACCOUNTING STANDARDS-SETTING PROCESS IN INDONESIA

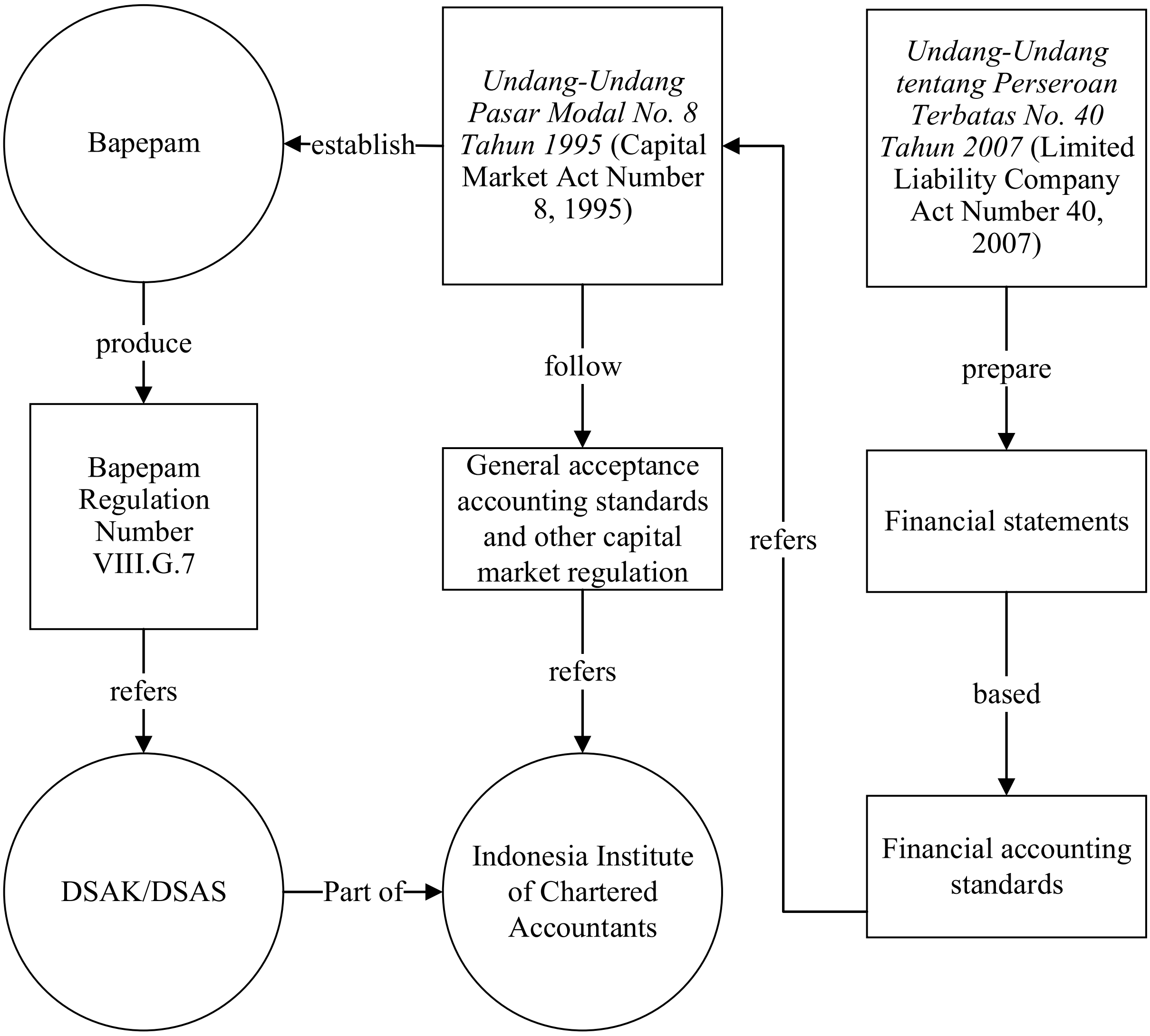


Figure 2.3 describes the relationship between the Capital Market Act and the Limited Liability Company Act, and BAPEPAM regulation depicts the development of accounting standards and the role of accountants as sole actors in accounting standards development. Figure 2.3 also shows the role of the Indonesian Institute of Chartered Accountants as a legitimate actor in accounting standards development.

Below is a list of government regulations regarding accounting standards in Indonesia:

TABLE 2.5. LIST OF REGULATIONS REGARDING ACCOUNTING STANDARDS

Number	Name	Year	Issuer
1.	Capital Market Act Number 8, (1995*Undang-Undang Pasar Modal Nomor 8 Tahun 1995*)	1995	Ministry of State Secretariat, Republic of Indonesia
2.	Limited Liability Company Act Number 40, 2007 (*Undang-Undang Nomor 40 Tahun 2007 Tentang Perseroan Terbatas*)	2007	Ministry of Law and Human Rights, Republic of Indonesia
3.	*BAPEPAM* regulation number VIII.G.7 relates to the presentation and disclosure of public company financial statements	2012	*BAPEPAM* (Capital Market Supervisory Agency, Republic of Indonesia)

2.5. Conclusion

This chapter provides some background to Indonesia, such as the historical context, and the development and structure of accounting standards. The historical background outlines how accounting was applied during the Islamic period and the period of colonisation. Although there is a lack of historical archive material and documents related to financial reporting, it can be deduced that the development of accounting emerged during the Dutch colonial period when governmental audit institutions were established.

The next section presents the development of the accounting profession. This section explains the development of the accounting profession which started in 1954 through Government Act Number 34, 1954 regarding the use of the title “accountant”. This regulation marked the starting point for the accounting profession in Indonesia. Following this regulation, the IAI was established in 1957 to accommodate the development of the accounting profession. By 1999, the Ministry of Finance issued a Decision by the Ministry of Finance, Republic of Indonesia, Number 331/KMK.017/1999 regarding the

Organisation of the Registration of the National Accountant Register. This regulation was then replaced by a new regulation namely the Ministry of Finance Regulation, Republic of Indonesia, Number 25/PMK.01/2014 regarding the National Accountant Register. The replacement was due to the lack of statements in the previous regulation for the accounting profession to protect public interests, construct an accounting profession, and to endorse the development of accounting profession to face professional challenges and globalisation. Following PMK 25/PMK.01/2014, the Minister of Finance issued KMK *263/KMK.01/2014* (Decision of Ministry of Finance Republic of Indonesia Number 263/KMK.01/2014 with regards to determining the Indonesian Institute of Chartered Accountants as a Professional Accountant Association). In the same year, in support of the Ministry of Finance, the Ministry of Education and Culture endorsed IAI's role in the professional education programme through the Ministry of Education and Culture's Regulation Number 153 of 2014 regarding the organisation of the Educational Programme for the Accounting Profession.

The last section describes the infrastructure of accounting standards through the description of the IAI's role as standards setter and the regulation supporting the standards setting process. IAI is the only accounting profession which has two parallel standard setters, namely DSAK and DSAS. The development of PSAK itself was initiated in 1973 and created Indonesia Accounting Principle (PAI). By 1984, PAI was then updated through translation of the US standards. In 1994, IAI decided to harmonise the standards with IAS. The first standard setter was KPAI, but by 1994 this had changed to DSAK. By the 2000s, Islamic finance was rapidly developing and in 2005 DSAK created a sharia committee in the boards to assisting in sharia finance. By 2009, following Islamic Finance Act Number 21 of 2008, IAI separated the sharia committee and established a new accounting standard board (DSAS) to accommodate sharia standards-setting. Both institutions followed similar standards-setting due process, including: issue identification, consultations, limited research, exposure draft publications, public hearings, limited hearings, discussions of public input and legalisation.

In the context of regulation supporting accounting standards-setting, it is the Capital Market Act and Limited Liability Company Act in Indonesia which regulate and endorse the development and implementation of accounting standards. Capital markets initiated by the government through the Presidential Decree No. 52/1976 were established to monitor companies who gained capital from the public and investors. To ensure trustworthy and reliable institutions in the capital markets, the government then issued other regulations such as Presidential Decree, No. 53/1990, and the Minister of Finance Decree No. 1548/1990 established BAPEPAM as a neutral body to supervise capital market activities. Then, in 2011, BAPEPAM was replaced by OJK to supervise capital markets and financial industries. The regulation explicitly identifies the financial reporting activities through Capital Market Act Number 8 of 1996 article 69. It stipulates that financial accounting standards should be established by the Indonesian Institute of Chartered Accountants and other accounting standards customary to the capital market. Additionally, Company Act Number 40 of 2007 article 66 states that every company should report their financial activities at least once a year and that the financial reporting should be developed according to financial accounting standards. In this context, financial accounting standards can be defined as accounting standards established by the accounting professional organisation recognised by the government of the Republic of Indonesia. Another regulation used by the regulators to recognised the activity of accounting standards-setting is through *BAPEPAM* regulation number VIII.G.7. This regulation states that public company financial statements should follow the Financial Accounting Standards set by Financial Accounting Standards Board and Sharia Accounting Standards Board of Indonesian Institute of Chartered Accountants and BAPEPAM regulations.

The following chapter, the literature review, discusses the importance of accounting standards-setting as a social practice . It is divided into two main streams: conventional accounting standards setting and Islamic accounting.

3. Literature review – accounting standards-setting process as social practices

3.1. Introduction

This chapter presents an overview of the literature review on accounting standards-setting process as social practices. This section consists of two major themes in the literature, conventional accounting standards and Islamic accounting. Section 3.2 presents the literature on the conventional accounting standards-setting process. This section consists of two streams discussing accounting standards as social practices in the context of conventional accounting: section 3.2.1 presents political participation in accounting standards-setting literature; and section 3.2.2 describes legitimacy building and management in accounting standards-setting literature. Section 3.3 describes the literature on Islamic accounting. Section 3.4 summarises and concludes the chapter.

3.2. Literature on conventional accounting standards-setting process

Accounting standards-setting is depicted as set of social practices. The effect of accounting standards was previously applied to calculate financial matters and wealth distribution among member of sociaty, thus affecting their welfare. Through this, the members of society and interested parties are interested in participating and influencing the develoment of accounting standards.

Although much research investigating conventional accounting standards-setting process has been applied differently, there is an absence of research examining the degree of difference in legitimacy dynamics of accounting standards-setting between conventional and Islamic accounting standards, as well as the role of cognitive biases embedded due to religious considerations and the role of professionalism in causing legitimacy. The literature on this section divides conventional accounting standards-setting process into two streams: i) the political aspects of accounting standards development; and ii) legitimacy building and management in standards-setting.

3.2.1. Political aspect of accounting standards setting

Accounting standards has far reaching implications, from economic consequences and wealth distribution to individual and social behaviour. By consequence, due to its extensive effects, political motivation becomes a key factor to define the logic of influence and participate in the development of accounting standards. Gipper et al. (2013. p. 524) assert political influence over accounting standards development to be "purposeful intervention in the standards-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve some other self-interested purpose consistent with the FASB's mission".

This section presents the literature on the political aspects of accounting standards-setting through economic self-interest behind lobbying efforts, constituent diversity and cultural reasons. In the context of lobbying activities, one of the most prominent pieces of research focused on the aspect of economic rationality and was conducted by Watts and Zimmerman (1978) through positive theory of accounting standards.[17] Through the lens of managerial economic incentives and cost-benefit, the development of accounting standards is believed not to only affect company performance but also management welfare.[18] Similarly, the argument of cost and benefit in standards-setting is also investigated by Puro (1984) through the association between an audit company and its clients. Audit companies will participate in accordance with their clients if the proposed accounting standards possibly affect their future incentives. Accordingly, lobbying behaviour also caused by cost and benefit calculation (Sutton, 1984). In addition, size of corporation also affects the nature of lobbying activities (Larson, 1997). The motivation for economic reason thus becomes crucial to investigating the relationship between the logic of lobbying and corporation activities in accounting standards development.

However, other researchers also cite constituent diversity in influencing and their participation in the accounting standards regulatory arena. For example, due to IASB international standards, IASB experienced political pressure and attention from various institutionalised actors (Zeff, 2002). Accordingly, Jorissen et al. (2012) investigated whether the representation and participation of interested parties applies in the standards setting process. Their research found a certain group of stakeholders are involved differently compared to other group of stakeholders, including the way in which communication is utilised differently between stakeholders (Jorissen et al., 2012). In fact,

[17] Their research explores the motivation behind management influence on U.S standards-setting, where accounting standards are expected to alter certain aspects of financial activities.
[18] Watts and Zimmerman (1978) proposed two factors of causing management wealth: a) share price and b) incentives bonus. These two factors are directly linked to management wealth through taxes, regulatory procedures, political costs, information production costs and management.

academics significantly participate in the standards-setting process, such as through the diversity of academics' feedback on IASB exposure draft between English-speaking countries and other countries (Larson and Herz, 2011). The accounting profession and the local accounting standards setter play dominant role in participation of IASB standards-setting process (Georgiou, 2010). Interestingly, previous research has sought to understand how the accounting profession represent its user in the national accounting standards-setting process (Harding and Mckinnon, 1997). Furthermore, the profession also seeks to dominate in the context of the Australian standards-setting process (Brown and Tarca, 2001). Similarly, Susela (1999) provides an insight into how the Malaysian accounting profession seeks domination over the other accounting professions in the development of accounting standards. Furthermore, Tandy and Wilburn (1992, p. 47) asserted that participation in the US standard-setting process is important for at least two main reasons: "firstly[,] due to systematic approach to problem-solving and[,] secondly[,] the standards-setting was deemed necessary to ensure the legitimacy of the FASB." Therefore, the diverse background of participants characterised the willingness by others to accept accounting standards development.

In fact, previous research has also investigated how culture affects the development of accounting standards. Gray (1988) provides a comprehensive framework of the way that culture may affects national-based accounting standards.[19] Perera (1998) identifies that the role of governments in standard-setting is strong and influential, especially in highly authoritarian countries. Furthermore, the development of accounting standards in developing countries is also caused by political identity and ideology. One example is China, although the Chinese undertook a major change in the development of accounting standard by complying to Anglo-Saxon standards; conversely, China maintains its national identity through strong governmental intervention (Bing, 1998; Chow et al., 1995). In addition to government rules, the Chinese accounting regulatory arena is also characterised by the availability of participants from different backgrounds, namely accounting profession and media taipan (Zhang and Andrew, 2015). However, a unique condition exists in China between capitalism and socialist ideology which has become a clear reason in separating capital market and politics (Zhang and Andrew, 2015).

[19] Applied Hofstede (1980, 1983) structural elements namely Individualism, power distance, uncertainty avoidance, and masculinity , this research linked cultural values to accounting values (professionalism vs statutory control; uniformity vs flexibility; conservatism vs optimism; and secrecy and transparency) (Gray, 1988).

Interestingly, among countries where the democratic system is immature, Bangladesh provides an example of collaboration between government institutions and international funding institution to pressure the adoption of IFRS, hence, creating conflict among regulators (Nurunnabi, 2015). Despite previous research into cultural value, Hamid et al., (1993) add that religion is a cultural factor which affects individual organisation behaviour. Islam provides an alternative to the western accounting system which is traditionally based on Judaic-Christian tradition (Hamid et al., 1993). Therefore, contrasting western and eastern values of religion provides a unique insight into how accounting standards are affected by religious factors in contemporary cooperation among nations.

This section has presented the political aspect(s) of accounting standards development through the lens of economic self-interest, participant diversity and cultural factor(s). Thus, the agreement between parties provides an explanation for acceptance by others (Bengtsson, 2011). This argument is supported by Kwok and Sharp (2005) who argue that activities in the standards-setting process are not limited to right or wrong activities, but are also related to strategic decision-making among multiple personal or organisational viewpoints. The characteristics of accounting standards-setting is not a matter of right or wrong but is generally agreed upon by the interested parties (Mouck, 2004).

The following subsection describes previous types of research on building and maintaining legitimacy in the accounting standards-setting.

3.2.2. Legitimacy building and management in accounting standards setting

For standards setter in accounting standards development, acceptance by others is a prerequisite for organisational existence. Acceptance shows the willingness of stakeholders to follow particular actions in the past and future in accordance with evaluation of experience or cognition which is taken for granted reason. Organisational acceptance by others depicts the legitimate position of organisations (Human and Provan, 2000). Therefore, through acceptance by others, an organisation can claim its legitimate status in the regulatory arena (Tandy and Wilburn, 1992). Legitimacy is pivotal for any institutions (Suchman, 1995), including the accounting standards-setter in accounting standards development. Through legitimacy, the standards-setter is capable of maintaining its survival and holds a privileged position as regulator among member of society. Therefore, other institutions prefer to follow due to their authority. However, without any legitimacy, the standards-setter is deemed as an invisible institution and other institutions become less attractive to follow the standards-setting process, which becomes catastrophic for the standards-setter's existence.

This part discusses research relating to the legitimacy of accounting standard-setting, which is represented into two contested areas: international and national accounting standards.

In the context of local accounting standards-setting, numerous researchers have exposed how legitimacy is perceived by national standards setter, for example through the role of US FASB. US FASB is one of the main organisations in the western world that has produced accounting standards which have been translated into local standards (and adopted by other countries). US FASB are characterised as independent institutions in the development of accounting standards. FASB is presented as a legitimate institution in the US due to SEC recognition and delegation (Johnson and Solomons, 1984)[20]. In other countries such as Canada, legitimacy in accounting standards is also sought through the evolution of accounting standards-setting (Baylin et al., 1996). Canadian standards setting has evolved from one that preserves the public community into one which needs to be accepted by the public community (ibid). While Durocher et al. (2007) applied integrated-theory[21] looked at the Canadian standards-setting process to define legitimacy from user participation. Furthermore, to be seen as legitimate by its user, the Canadian Accounting Standards Boards' (AcSB) devoted much attention and effort to symbolic features and cultural accounts (Durocher and Fortin, 2010).[22] The role of government regulation also provides an insight into how legitimacy is perceived by others, such as in Germany where the code of law is strictly regulated and commonly used for business institutions (Schmidt, 2002). Accordingly, the role of strict law in Germany can cause serious challenges to maintaining various conflicts of interests involved in the process of

[20] Under the SEC Security Acts of 1933 and 1934, the US Congress delegated authority of standards-setting to SEC In turn, SEC delegated responsibility to FASB under the Accounting Series Release (ASR) No. 15 and No. 150 (Johnson and Solomons, 1984).

[21] Durocher et al. (2007) combined Hardy's (1994) power framework (instrumental power, symbolic power, systemic power, Suchman's (1995) legitimacy typology (pragmatic, moral and cognitive legitimacy) and Vrooms's (1964) expectancy theory (valence, instrumentality expectancy).

[22] According to the study, managing pragmatic legitimacy for AcSB was not a priority as the organisation did not seek the user's involvement. Instead, the AcSB focused on governmental support that was aligned with the conceptual framework (Durocher and Fortin, 2010)

developing standards (Schmidt, 2002). Therefore, by understanding legitimacy in national-based accounting system, previous research has unveiled the diversity and difference in legitimacy perceived by standards setter, thereby helping other researchers to formulate how standards-setter maintain their existence in the accounting regulatory space.

The formation of the International Accounting Standards Board (IASB) unveiled new phenomena on the subject of accouting standards setting legitimacy. For IASB, seeking acceptance and maintain legitimacy is pivotal to its existence. During the early establishment of IASB, constituent participation becomes imminent in obtaining legitimacy and success, since IASB has become larger and its standards are adopted globally (Larson, 2002). As the successor to IASC, IASB seeks legitimacy through participation in SIC (Larson, 2002).[23] Interestingly, IASB also gains more legitimacy from EU countries than any other region (Larson, 2007). These arguments are supported by Luthardt and Zimmermann (2009) through the perspective that EU institutions become an intermediary institution to endorse accounting standards by private institutions adopted in EU countries. However, reflecting certain countries' participation, alongside IASB-FASB convergence, IASB pays more attention to elite accounting corporations (Bamber and McMeeking, 2016). Interestingly, there was negative bias against British comments and positive bias towards American comments (ibid). The paper argued that, due to the fact the US constituents were likely to have a superior accounting knowledge and background experience and were considered more powerful and useful in the process (ibid). Jorissen et al. (2013) investigated IASB input legitimacy through the involvement of stakeholders in the opinion process. Thus, legitimacy appears to be caused by geographic biases between countries which participate in the standards-setting process (Jorissen et al., 2013). In addition to input legitimacy,[24] Pelger and Spieß (2016) stated that the IASB selected specific group (user, investor and analyst) inclusiveness to construct input legitimacy. Interestingly, IASB also observed that it was supported by world leaders in major economic countries such as G20 and the European Union (EU) through the EU commission and parliament (Danjou and Walton, 2012). In the context of

[23] The paper focused on the Standing interpretation Committee (SIC) due process, structure and membership and on constituent participation in the SIC's first 23rd draft interpretations (Larson, 2002).
[24] Pelger and Spieß (2016) focused on the dimension of input rather than output legitimacy. Input legitimacy differentiates input from output in the context of standards-setting, as input is concerned with the decision-making process and participation in due process while output contributes to the perception of common welfare (Pelger and Spieß, 2016).

IASB procedure, IASB allows for time extension in the consultation period so as to maintain its legitimacy status (Richardson and Eberlein, 2011).

This section has presented the subject of legitimacy as investigated by previous research at the international and national level. There is a gap in the literature in legitimacy accounting standards, specifically, in comparing legitimacy dynamics between conventional and Islamic accounting standards-setting.

Following this review on legitimacy building and management of accounting standards, the next section presents the literature on Islamic accounting research.

3.3. Literature on Islamic accounting

The development of accounting today has adapted various styles of businesses and transactions. The development of accounting standards is divided into two main topics: i) conventional accounting which refers to the accounting style for conventional transactions and businesses (includeing national-accounting standards such as US GAAP and others, and international standards such as IFRS; and ii) Islamic accounting standards, which applies mainly to Islamic Financial Institutions (IFI) or Islamic banks or transactions.

Islamic accounting is derived from the notion that accounting should be developed based on Islamic values. Napier (2009) defined the term "Islamic accounting" as accounting that is derived from beyond a certain location in the Middle East (countries such as Saudi Arabia, Egypt, Jordan and Bahrain etc.) but rather as accounting that is derived from Islamic values. Therefore, due to religious background, the application of Islamic accounting is different compared to the conventional accounting which is reflected in the western accounting system.

Islam means submission; every Muslim should embrace and practice Islamic values into their daily lives. In other words, Islam is a holistic religion that regulates every aspect of life. The application of Islamic values in everyday life is embodied through perceptions, beliefs and actions for every Muslim.

The foundation of the conventional accounting system emerged from double-entry booking systems that were initially discovered in northern Italy during the 13th century. Most scholars believe that the argument for double-entry bookkeeping systems in Italy evolved as part of merchant activities (Bryer, 1993; Yamey, 1949). Bryer (1993) articulated the work of Karl Marx by describing the rise of double-entry bookkeeping as the continuous progress of "commercial revolution" that was underlined by "social revolution". The characteristic of social revolution at that time was the change in style by merchants who combined the role of power and capital in commercial activities. Previously, merchants traded only with their capital, rather than collecting capital from other parties in order to obtain more significant capital. Cipolla (1993) explains that the expansion of collective capital started from individuals within families followed by other societies within cities. More partners in merchant activities were beneficial for future businesses as this would increase their business' turnover and the potential for future profit. The act of collecting capital across individuals was considered as economic rationalisation (Carruthers and Espeland, 1991).

There are different aspects characterising the difference between Islamic and conventional accounting. Philosophically, Islamic accounting should mainly be derived from religious aspects and values, whereas in conventional, secular, accounting, financial activities are derived from economic rationality and pursue profit maximisation (Baydoun and Willet, 2000). However, Islam recognises profit as part of trade activities and zakat should be deducted from the profit as a compulsory religious tax. According to Haniffa and Hudaib (2007), zakat is considered as an act of worship and a form of piety to Islam.

Accounting in the Islamic world is developed due to the need to regulate Islamic banking to be compliant with Islamic values. These Islamic values regulate the lives of every Muslim and are termed as sharia. Sharia comes from an Arabic word, the meaning being 'the way to the source of life' (Lewis, 2001). The resources of sharia consist of Al-Qur'an (the words of God) and Sunnah (the acts and sayings of Prophet Muhammad PBUH) (Napier, 2009). The Holy Qur'an mentioned precisely to record transaction for accountability reasons as follows:

> "O you who have believed, when you contract a debt for a specific term, write it down. And let a scribe write [it] between you in justice. Let no scribe refuse to write as Allah has taught him. So, let him write and let the one who has the obligation dictate. And let him fear Allah, his lord, and leave anything out of it. But if the one who has the obligation is of limited understanding or weak or unable to dictate himself, then let his guardian dictate in justice. And bring to witness two witnesses from among your men. And if there are not two men [available], then a man and two women from those whom you accept as

witnesses – so that if one of the women errs, then the other can remind her. And let not the witnesses refuse when they called upon. An do not be [too] weary to write it, whether it is small or large, for its [specified] term. That is more just in the sight of Allah and stronger as evidence and more likely to prevent doubt between you, expect when it is an immediate transaction which you conduct among yourselves. For [then] there is no blame upon you if you do not write it. And take witnesses when you conclude a contract. Let no scribe be harmed or any witness. For if you do so, indeed, it is [grave] disobedience in you. And fear Allah. And Allah teaches you. And Allah is knowing of all things" (Surah 2: verse 282)

In the Holy Qur'an, Islam allows trade but prohibit interest:

> "…But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest and usury] – those are companions of the Fire; they will abide eternally therein." (Surah 2; verse 275)

Zakat is one of five pillars of Islam. Beside as the pillar of Islam, zakat also become one of common Islamic knowledge. Zakat address many times in the Holy Qur'an such as:

> "Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase and invoke [Allah's blessing] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing." (Surah 9: verse 103)

> "And establish prayer and give zakat and bow with those who bow [in worship and obedience]" (Surah 2: verse 43)

The sharia is responsible for regulating all aspects of human life, the relationship of humanity with the environment and with God. The sharia also regulates economic activities for Muslims, such as in commerce, banking, finance and accounting (Lewis, 2001). Thus, these Islamic laws allow and prohibit specific circumstances with regard to business activities. According to Ayub (2007, pp.43-63), the necessary prohibition of Islamic business activities are mainly related to *Riba* (interest), *Gharar* (an uncertainty or hazard that can create a lack of information related to the business transactions) and

Maisir or *Qimar* (related to gambling). The table below summarises the differences between conventional and Islamic accounting practices according to Baydoun and Willet (2000):

TABLE 3.1. DIFFERENCE CHARACTERISTICS OF CONVENTIONAL AND ISLAMIC ACCOUNTING

Categories	Accounting types	
	Conventional accounting system	Islamic Accounting
Philosophical viewpoint	Economic Rationalism	Unity in God
Principles	Secular values, Profit maximisation	Religious values and reasonable profit
Criteria	Based on modern commerce	Based on Qur'an and Hadith

Source: Baydoun and Willet (2000)

Previous research into Islamic accounting is mainly linked to the development of Islamic accounting as an alternative to conventional accounting, in particular criticising the application of conventional accounting for supporting capitalism and the western banking system (Abdel-Magid, 1981; Baydoun and Willet, 2000; Haniffa and Hudaib, 2002; Mirza and Baydoun, 1999;). The first piece of research in the English language to initiate Islamic accounting research was Abdel-Magid (1981). He described the importance of the development of Islamic banking system. The paper argued that economic development in the Islamic world had become a catalyst for unifying Islamic economic systems in the Islamic world through: i) the prohibition of usurious transactions; ii) networking of Islamic banks; iii) the establishment of a common Islamic market; iv) establishing an Islamic capital market; and v) harmonisation of company laws in Islamic countries (Abdel-Magid, 1981). This development would eventually create a distinction to the western economic approach (ibid). The author suggested that the most interesting aspect of Islamic banking is the view that an Islamic bank is a legal entity comprising accounting entities of the *Zakah* fund, normal banking operations, investment deposits and general investments (ibid). Other research into Islamic accounting presents a description of the prohibition of usury or interest as a topic to be researched.

In conventional accounting, accounting attempts to accommodate the use of interest in business operations. Accommodating the need for financial reporting for the Islamic Financial Institution that had been developing rapidly, Islamic accounting standards should be applied towards businesses that are active in trading activities and prohibit any interest made on their activities (Mirza and Baydoun, 1999). In addition, Islamic accounting also applies full types disclosure that is based on social accountability (Baydoun and Willet, 2000). The paper argued that disclosure from an Islamic perspective is inherently reflected in religious belief and is based on prescription system, recommendations and prohibitions rather than a legal code (ibid). While, Haniffa and Hudaib (2002) proposed holistic information related to Islamic accounting perspectives. For conventional accounting, accounting applies to accommodate decision-making of stakeholders, while Islamic accounting is defined as an assurance establishing socio-economic justice through its procedures, routines, objective measurement, control and reporting as stated in *Shari'ah Islami'iah* (Islamic teaching) (Haniffa and Hudaib, 2002).

Another interesting research relates to the prohibition of riba' is address by Kamla and Haque (2017) address how AAOIFI as global standards setter in Islamic accounting standards is related to the imperialism-accounting nexus. Following another international standards-setter, AAOIFI also collaborates with local actors (Islamic Financial Institutions, regulatory institutions and sharia scholars) of Muslim communities to increase its status. The paper identifies that, despite being perceived uniquely Islamic, AAOIFI is thought to sustain the accounting-imperialism nexus (Kamla and Haque, 2017).

Subsequent research began to scrutinise Islamic accounting beyond the theoretical foundation of Islamic accounting. Kamla et al. (2006) observed that the adoption of social responsibility in the western countries was similar and to some extent influenced by Islamic perspectives. Cultural factors and the cultural identity of Islam in the Arab world helped the promotion and adoption of social responsibility in comparison to western corporate values (Kamla et al., 2006). Meanwhile, Haniffa and Hudaib (2007) investigated the ethical identity of Islamic Banks as the foundation of the banks reflected from Islamic principles. Using an Ethical Identity Index[25], the paper examined whether

[25] The paper developed the EII and divided the table into eight different contexts: vision and mission statements; BODs and top management; product and services; *Zakah*, charity, and benevolent loans; commitments towards employees; commitments towards debtors; commitment towards society; and Sharia supervisory board.

any discrepancy existed between communicated and ideal ethical identity (Haniffa and Hudaib, 2007).

Research on Islamic accounting has also expanded to encompass International Islamic standards setter, such as the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI). AAOIFI is an international organisation with the objective of assisting IFIs[26] to develop accounting standards and to enhance quality financial reporting (Suandi, 2013). As standards setter, Abdel Karim (1995) examined the FAOIBFI's approach of developing objectives and concepts of accounting standards for Islamic Banks and also investigated the needs of such specific conceptual frameworks. The paper argued that FAOIBFI[27] required both objectives and concepts for legitimating the standards (Abdel Karim, 1995). In addition, AAOIFI standards should represent the best choices for Islamic banking around the world, thereby reducing costs and creating comparability of financial reporting among Islamic banks (Sarea and Hanefah, 2013). Hence the implementation of AAOIFI standards was pivotal in embracing Islamic banking (Karim, 2001). In addition, Sarea (2012) examined the level of compliance with AAOIFI standards in Bahrain by looking at perceptions of accountants. She indicated that Islamic banks in Bahrain have fully adopted AAOIFI standards. While, Kamla and Haque (2017) address of how AAOIFI as global standards setter in Islamic accounting standards relates to imperialism-accounting nexus. Following of another international standards setter, AAOIFI also collaborate with local actors (Islamic Financial Institutions, regulatory institutions, and sharia scholars) of Muslim communities to increase their status namely. The paper identifies despite being perceived uniquely Islamic, AAOIFI also thought operate to sustain the accounting-imperialism nexus (Kamla and Haque, 2017). The potential collaboration between AAOIFI and IASB is investigated by Mohammed et al. (2015). The research identifies that AAOIFI standards has a great influence on IFI's financial reporting. The research also found possible application of IFRS for IFI's financial reporting. The paper suggests that, from the growth of IFRS globally, IFRS should collaborate with other institutions such as AAOIFI to create more applicable standards for Islamic financial institution (Mohammed et al., 2015). Regarding the integration of the accounting system, Zaleha et al. (2011) investigated

[26] Islamic Financial Institutions.

[27] The previous name of AAOIFI was the Financial Accounting Organisation for Islamic Banks and Financial Institution (FAOIBFI). AAOIFI is an international organisation similar to IASB, objectively promoting accounting standards for the Islamic Financial Institution.

whether any difference between the management accounting system of conventional and IFI's in Malaysia. The nature of IFI's financial reporting is associated with both business and religious objectives. The paper identifies that IFI's in Malaysia applies similarly to conventional ones but is broader in scope, timely, integrated and aggregated than conventional ones (Zaleha et al., 2011). Research into Islamic accounting is also from a historical perspective such as Napier (2009). His paper explored the historical perspectives of Islamic accounting since its inception and identified early research and concepts of Islamic accounting. The development of Islamic accounting in the modern day era is related to the convenient labelling of so-called Islamic accounting which should actually be based on Islamic perspectives (Napier, 2009). The paper also argued that there is scope for much more research into accounting ideas and practices, especially in counties where the majority of the population is Muslim such as Indonesia or Malaysia (ibid). Further research can be applied through perspectives such as whether the use of "accounting by states and governments, the characteristics of groups of people responsible for preparing accounts, and the roles of accounting in organisations (ibid, p. 136)".

In Indonesia, Antonio and Mukhlisin (2013)[28] analysed the role and implementation of Islamic accounting standards in the UK and Indonesia. They suggested that both the UK and Indonesia have accounting standards for IFIs. However, the underlying concept establishing Islamic accounting in Indonesia was different from that of the UK. In Indonesia, Islamic accounting standards were developed based on the needs of its society, whereas in the UK, IFIs report their financial reporting through a conventional lens (Antonio and Mukhlisin, 2013). Suandi (2013) investigates the development of Islamic accounting standards in Indonesia, finding that is not developed based on AAOIFI standards but on its own standards setter. It exists because of different comprehension and interpretation regarding sharia between AAOIFI and DSAS (Suandi, 2013).

With regard to the previous study of Islamic accounting standards, there is a lack of English-language research comparing conventional and Islamic accounting standards-setting, in particular discussing legitimacy dynamics between the two forms of accounting standards. Previous research in Islamic accounting standards criticised the use of interest

[28] This research follows Ibn Khaldun's model for a civilised society. This model consists of government function, the direction of sharia, the role of people, the use of wealth, the development of a country and the promotion of Justice (Antonio and Mukhlisin, 2013).

in business activities. Thus, the Islamic community should apply a holistic approach based on Islamic principles (Abdel-Magid, 1981; Haniffa and Hudaib, 2007). Only one research paper mentions legitimacy; Abdel Karim (1995) addresses the need for to have AAOIFI conceptual framework to enhance legitimacy. There is significant gap in the literature addressing Islamic accounting standards-setting. This research aims to shed some light on the question of legitimacy in Islamic accounting standards by addressing legitimacy dynamics based on the evaluative and cognitive aspects between the Islamic and conventional standards-setting process. In addition, cognitive biases embedded due to professional and religious background affect the legitimacy of the standards-setting process.

3.4. Conclusion

This section consists of a description of previous research– accounting standards-setting process as social practices based on the perspectives of conventional and Islamic accounting standards. This study focuses on the social viewpoint of accounting standards-setting process, as called for by Gillis et al. (2014, p. 586) in a special issue of AAAJ on accounting regulation, which "aims to explain what is happening, why it is happening", particularly in Islamic accounting development (Napier, 2009).

Previous researchers have investigated how society participates in the development of accounting standards through its social aspect in conventional accounting. By analysing the cause of lobbying, previous research has identified the logic behind corporate participation due to economic consequences (Larson, 1997; Puro, 1984; Watts and Zimmerman, 1978). The diversity of consitutent backgrounds also become the concern of the studies, including the diversity of actors based on certain standards-setting stages (Jorissen et al., 2012); the role of academics from Anglo-Saxon countries compare to other countries (Larson and Herz, 2011); the role of accounting profession (Brown and Tarca, 2001; Harding and Mckinnon, 1997). Previous research also examined the role of culture in affecting the standards setting process, such as social values in relation to accounting standards (Gray, 1988); the relationship between developing countries and the types of accounting standards (Bing, 1998; Chow et al., 1995; Zhang and Andrew, 2015); the role of government and international funding agencies (Nurunnabi, 2015; Perera, 1989); and the effect of religion in developing accounting standards (Hamid et al., 1993). Furthermore, due to the fundamental importance of acceptance in standards-setting process by its followers, previous research has also investigated the reasons for perceived legitimacy in accounting standards setting, such as legitimacy due to geographic bias (Jorissen et al., 2013); the act of standards setter to proactively seeking input and response in accounting regulatory arena (Durocher and Fortin, 2010); the application of legitimacy theory and its combination with other theory (Durocher and Fortin, 2011; Johnson and Solomons, 1984); the role of regulation in causing legitimate reason (Schmidt, 2002); and legitimacy in the context of international standards-setting (Bamber and McMeeking, 2016; Larson, 2007; Pelger and Spieß, 2016; Richardson and Eberlein, 2011). With regard to Islamic accounting, previous research mainly focused on the development of the theoretical foundation of Islamic accounting (Abdel-Magid, 1981; Haniffa and Hudaib, 2002; Mirza and Baydoun, 1999), ethics and social responsibility (Haniffa and Hudaib, 2007; Kamla et.al, 2006), international regulation of Islamic financial institutions (Abdel Karim, 1995); and historical perspective in Islamic accounting standards development (Napier, 2009).

Accounting standards are a product of a legitimate institution where legitimacy dynamics is affected by various factors. Conventional and Islamic accounting standards setting have a different theory. Therefore, it is worth investigating the difference in legitimacy dynamics between the two forms of standard-setting. It is also worth investigating the degree of cognitive biases due to religious and professional considerations.

The next chapter presents the theoretical foundation of this study.

TABLE 3.2. MAJOR RESEARCH OF CONVENTIONAL OF ACCOUNTING STANDARDS-SETTING

Authors and Research Title	Topic of Research	Findings
Watts and Zimmerman (1978) (Towards a Positive Theory of the Determination of Accounting Standards)	Effects of General Price Level Changes in Financial Statements in the United States	The research finds that the result is consistent with the hypothesis that corporations tend to influence standards setting process if there is a possibility of economic consequences for future financial performance.
Puro (1984) (Audit Firm Lobbying Before the Financial Accounting Standards Board: An Empirical Study)	Six hypotheses reflecting economic theory and agency theory in the US	The research identifies that audit firms tend to follow the client's interest since this will affect their incentives. The result found that the difference in response was related to disclosure and standardisation.
Sutton (1984) (Lobbying of Accounting Standard-setting Bodies in the U.K. and the U.S.A.: A Downsian Analysis)	Different issues between US proposed standards and UK standards	The research found profitability reasons are situational due to the cost and sharing arrangement and also due to a lower degree of participation, which in turn relates to a lower degree of benefit (Sutton, 1984). The research also found that time frames also affect how companies lobby accounting standards development.
Larson (1997) (Corporate Lobbying of the International Accounting Standards Committee)	Various proposed standards in the development of IAS standards	The paper found that the size and asset of companies was more significant than non-lobbying enterprises. Corporation lobbying tended to be very large and operated in both local and global contexts, in comparison to non-lobbying corporations. (Larson, 1997).
(Zeff, 2002)	Theoretical research of lobbying in IASB activities	The resarch identifies a historical factor of lobbying that may affect the future aspect of standards-setting by IASB.

("Political" Lobbying on Proposed Standards: A Challenge to the IASB)		
Jorissen et al. (2012) (Corporate Lobbying in Private Accounting Standard Setting: Does the IASB Have to Reckon with National Differences?)	Comments letter to IASB during 2002-2006	The research found that certain groups of constituents, namely the accounting profession, standards setters, users and academics , all participate in the early stages of the standards-setting process, while preparer focuses on formal discourse in the standards setting process (Jorissen et al., 2012). In addition, the research also identified that the communication line of participation is represented differently between the European constituents who participated directly and those participating indirectly in IASB's due process (Jorissen et al., 2012).
Larson and Herz (2011) (The Academic Community's Participation in Global Accounting Standard-Setting)	IASB standards-setting process of 79 issues	The research found that academics from Anglo-Saxon countries provide comparatively more feedback in the context of IASB standards-setting.
Harding and Mckinnon (1997) (User Involvement in the Standard-setting Process: A Research Note on the Congruence of Accountant and User Perceptions of Decision Usefulness)	Delivering questionnaires representing different groups of actors in Australia standards setting subjected into three different topics (deferred credit, tax accounting and leasing)	The research found that in the deferred credit scenario the accountant perceives change less favourably compared to the user (financial statement users), while in the leasing scenario there was no difference in perception between accountant and user. Interestingly, for the tax scenario, the result found no significant difference between accountant and user.

Susela (1999) ("Interests" and Accounting Standard Setting in Malaysia)	Malaysia goodwill accounting standards	The research presents how professional actors are involved and interact in standards setting. The paper identifies that international profession in the development of Malaysia's accounting standards. Furthermore, the research also found that professional rivalry between accounting professions exists in Malaysia's standards setting process.
Brown and Tarca (2001) (Politics, Processes and the Future of Australian Accounting Standards)	Theoretical research of accounting infrastructure in Australia	The research identifies that the accounting profession in Australia dominates the development of accounting standards. Therefore, the nature of accounting standards is considered unattractive since it lacks proper regulation (Brown and Tarca, 2001). The paper argued that the need for comprehensive regulation is crucial for a more attractive standards setting.
Gray (1988) (Towards a Theory of Cultural on the Development of Accounting Influence Systems Internationally)	International difference of culture and accounting system among countries	The paper conceptually links between cultural values and organisations behaviour, thus affecting the accounting system.
Perera (1998) (Accounting in Developing Countries: A Case for Localised Uniformity)	Theoretical research of accounting standards in developing countries	The paper identifies that accounting standards in developing countries should be according to local customs. The paper suggests two reasons for adopting local customs in accounting standards development: i) that foreign international standards may not be applicable, ii) and that there is a need for efficient standards

Bing (1998) (Institutional Factors Influencing China's Accounting Reforms and Standards)	Investigating the reformation of accounting standards in China	The Chinese government provides infrastructure support in the development of Chinese accounting standards.
Chow et al. (1995) (Accounting Reforms in China: Cultural Constraints on Implementation and Development)	China accounting culture	Following Gray (1988), this research objectively investigates cultural aspects in Chinese accounting standards development. The research founds that accounting standards in China are consistent with Chinese culture and identity although they are subjected to Anglo-Saxon standards.
Zhang and Andrew (2015) (Rethinking China: Discourse, Convergence and Fair Value Accounting)	IFRS adoption in China using critical discourse analysis	The research found that accounting standards in China depict the separation between politics and economics, via the adoption of IFRS.
Nurunnabi (2015) (The Impact of Cultural Factors on the Implementation of Global Accounting Standards (IFRS) in a Developing Country)	Interview study regarding IFRS adoption in Bangladesh	The study found that corruption and a lack of professionalisation affects the implementation of IFRS. The paper also found that institutional isomorphism is highly interrelated due to national and cultural values in society (Nurunnabi, 2015).
Hamid et al. (1993) (Religion: A Confounding Cultural Element in the	Theoretical research, associating Islam in the development of accounting standards	The paper identifies that Islam is holistic religion. As part of cultural values, Islam may influence the development of accounting standards.

International Harmonization of Accounting?)		
Johnson and Solomons (1984) (Institutional Legitimacy and the FASB)	FASB institutional legitimacy due to individual constitutional calculus[29]	Based on Max Weber's (1947) three basic concepts of legitimacy claimed by authority,[30] the paper identifies that FASB gained legitimacy due to the delegation authority of SEC.
Baylin et al. (1996) (Accounting Standard-Setting in Canada, 1864-1992: A Theoretical Analysis of Structural Evolution)	Structural evolution of Canadian accounting standards-setting process	The paper identifies six stages of evolution in Canada accounting standards setting process. The paper argues that the evolution of accounting standards needs to be legitimate from both a narrow respondent and broader community.
Durocher and Fortin (2010) (Standard-Setting Institutions' User-Oriented Legitimacy Management Strategies: The Canadian case)	Adopting Suchman (1995) legitimacy theory into AcSB standards-setting process	The paper focused on the legitimacy perspective from the users (financial statement users). The results found that AcSB gives attention to cultural and symbolic features rather than to pragmatic legitimacy (Durocher and Fortin, 2010).
Schmidt (2002) (On the Legitimacy of Accounting Standard Setting	Economic approach to explore legitimacy of accounting standard-	The article provides information on how regulation can help legitimise the standards setting process in Germany. In the EU, regulatory competition might be successful in increasing

[29] "Individual constitutional calculus is based on the premise that the process or institution is legitimate if it continues to be acceptable to its constituency despite challenges posed to its credibility by the inevitable crises that surrounds the exercise of such authority" (Johnson and Solomons, 1984, p.167).

[30] (i) charismatic authority (which relies on the willingness of the constituency to follow a given individual); (ii) traditional authority (which relies on the willingness of the constituency to follow pre-established institutional structure or social order because it has been followed by previous generations); and (iii) rational-legal authority (which relies on the willingness of the constituency to accept particular institutional structures because of the logical secular advantages) (Johnson and Solomons, 1984, pp.167-168).

by Privately Organised Institutions in Germany and Europe	setting in Germany and EU countries	competitiveness which may then lead to an improvement in accounting regulation.
Larson (2002) (The IASC's search for legitimacy: An analysis of the IASC's standing interpretations committee)	IASB SIC's first 23rd draft interpretations	This research found that the SIC structure relates to large accounting firms and does not represent diverse constituent. The paper also found that there is stagnation over time in the number of comment letters that affect SIC legitimacy (Larson, 2002).
Larson (2007) (Constituent Participation and the IASB's International Financial Reporting Interpretations Committee)	IASB IFRIC's first 18 Draft Interpretations	This research found that IASB gain legitimacy from EU countries in compare to other countries.
Richardson and Eberlein (2011) (Legitimating Transnational Standard-Setting: The Case of the International Accounting Standards Board)	Evaluate IASB due process against cultural benchmark	This research found that IASB build its legitimacy from a procedural perspective. In comparison to the US and UK, IASB provides a complexity of standards setting such as through supermajority voting and extended timing (Richardson and Eberlein, 2011).
Bamber and McMeeking (2016) (An Examination of International Accounting Standard-setting Due Process	IASB public comment letters, minutes of IASB board meeting, and notes from notes from technical working group meeting	The paper found that IASB was concerned with elite accounting corporations and in terms of a jurisdictional perspective, there was a negative bias towards British comments and positive bias towards American comments (Bamber and McMeeking, 2016). The paper argued this to be the case, because the American

and the Implications for Legitimacy)		constituents were likely to have felt superiority towards UK constituents due to accounting knowledge and background experience (Bamber and McMeeking, 2016)
Pelger and Spieß (2016) (On the IASB's Construction of Legitimacy – The Case of the Agenda Consultation Project)	IASB's agenda consultation in 2011/2012	This research identified four factors which contribute to IASB legitimacy: i) agenda consultation for public; ii) inclusiveness; iii) repeating CLs; iv) infrastructure responsiveness
Danjou and Walton (2012) (The Legitimacy of the IASB)	Politics on IASB standards-setting	The paper identifies that IASB is supported by world leaders from the G20 and the EU.
Luthardt and Zimmermann (2009) (A European view on the legitimacy of accounting procedures: Towards a deliberative-accountability framework for analysis)	EU IAS Regulation	This research presents the development of accounting standards perceived to be legitimate in the EU context.
Tandy and Wilburn (1992) (Constituent Participation in Standard-Setting: The FASB's First 100 Statements)	Participation of FASB 100 standards	The research found that FABS needs to encourage stakeholders to participate in standards setting. Without encouragement FASB may perceived as lacking legitimacy (Tandy and Wilburn, 1992).
Jorissen et al. (2013)	The evolution of constituent participation in	Analysing 7442 comment letters, the paper found an increase in comments submitted and that the differences in geographical

(A Geographic Analysis of Constituents' Formal Participation in the Process of International Accounting Standard Setting: Do We Have a Level Playing Field?)	international standards-setting by IASB/IASC from 1995-2007	representation of constituents were due to differences of costs, unfamiliar of English language and the system of accounting standards-setting process (Jorissen et al., 2013).
Durocher et al. (2007) (Users' Participation in the Accounting Standard-Setting Process: A theory-building Study)	Interview research in regards AcSB	Durocher et al. (2007) developed explanatory theory to describe the participation of accounting standards development through Hardy's (1994) power framework (instrumental power, symbolic power, systemic power), Suchman's (1995) legitimacy typology (pragmatic, moral and cognitive legitimacy) and Vrooms's (1964) expectancy theory (valence, instrumentality and expectancy). The research revealed that valence was affected by intrinsic motivation and that extrinsic valence was affected by all types of legitimacy.

TABLE 3.3. MAJOR RESEARCH ON ISLAMIC ACCOUNTING STANDARDS

Authors and Research Title	Topic	Motivations and Findings
Abdel-Magid (1981) (The Theory of Islamic Banking: Accounting Implication)	Theoretical research	The research provides implications for the field of accounting from the operationalisation of Islamic banking. The research identifies that via political and economic force, the uniformity of financial reporting based on Islamic tenet is possible.
Mirza and Baydoun (1999)	Theoretical research	This research presents the need for a special accounting system for the Islamic community based on Islamic values. This

(Do Islamic Societies Need Their Own Accounting and Reporting Standards?)		accounting system should accommodate sharia terms such as zakat and *qard*.
Haniffa and Hudaib (2002) (A theoretical framework for the development of the Islamic perspective of accounting)	Theoretical research	The paper conceptualised the need for an Islamic Perspective of Accounting (IPA) by highlighting the lack of conformity between the Western and Islamic accounting system through role perspectives and societal function. By adopting *Shari'ah Islami'iah* to establish justice, it conforms as an *ibadah* (worship) towards God to achieve socio-economic benefits (Haniffa and Hudaib, 2002)
Kamla et al. (2006) (Islam, Nature and Accounting: Islamic Principles and the Notion of Accounting for the Environment)	Theoretical research	The paper presents the adoption of social responsibility in western countries similar to Islamic values. Accordingly, cultural factors and cultural identity of Islam in the Arab world has helped in the promotion and adoption of social responsibility, contrasting with western corporate values (Kamla et al., 2006)
Haniffa and Hudaib (2007) (Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports)	Content analysis of the corporate annual reports of gulf countries between 2002 - 2004	The paper founds that Islamic banks are expected to communicated not only through social needs but religious perspective. The research suggested that good corporate communication and literature are vital to promoting ethical identity index, but few Islamic banks applied this index (Haniffa and Hudaib, 2007).
Kamla (2009) (Critical Insights into Contemporary Islamic Accounting)	Theoretical research	The paper presents the critical viewpoints of current research on Islamic banking and Islamic accounting, prompting further research to be undertaken on both Islamic banking and accounting so as to reflect more on the social context.

Kamla and Haque (2017) Islamic accounting, neo-imperialism and identity staging: The Accounting and Auditing Organization for Islamic Financial Institutions	Theoretical research	The paper investigates whether AAOIFI applies neo imperialism and identity staging in accounting standards development. The paper founds that AAOIFI collaborate with local actors to strengthen Islamic accounting standards development. Beside maintain its Islamic identity, AAOIFI also operate to sustain the accounting-imperialism nexus.
Kamla and Alsoufi (2015) Critical Muslim Intellectuals' discourse and the issue of 'Interest' (ribā): Implications for Islamic accounting and banking	Theoretical research	The paper use Critical Muslim Intellectual (CMI) to criticise the traditional approach and views regarding riba' or interest.
Abdel Karim (1995) (The Nature and Rationale of a Conceptual Framework for Financial Reporting by Islamic Banks)	FAOIBFI objective and concept	The research identifies that FAOIBFI needs to develop objectives and concepts in order to become a legitimate institution.
Sarea (2012) (The Level of Compliance with AAOIFI Accounting Standards: Evidence from Bahrain)	Questionnaire towards accountants in Bahrain	The result found that Bahrain is highly compliant with AAOIFI's standards and is supported by the central bank.

Mohammed et al.(2015) The Influence of AAOIFI Accounting Standards in Reporting Islamic Financial Institutions in Malaysia	Interview study	The research founds that AAOIFI has significant influence towards IFI's financial reporting in Malaysia. The paper suggest that for the benefit of global IFRS adoption, IASB should collaborate with AAOIFI for creating applicable standards for Islamic financial institutions.
Zaleha et al. (2011) Management accounting systems in Islamic and conventional financial institutions in Malaysia	Questionnaire and Interview research	The research provides the difference of management accounting system between IFI's and conventional banking in Malaysia. The result found that IFI's applies similar management accounting system with broader scope, timely, integrated of management than conventional one
Napier (2009) (Defining Islamic Accounting: Current issues, Past Roots)	Historical research in Islamic accounting	This research provides a historical perspective on Islamic accounting, and suggests a greater scope of research in the Islamic accounting sphere across Muslim-majority countries.
Suandi (2013) (Islamic Accounting in Indonesia: A Review from Current Global Situation)	Historical research in Islamic accounting in Indonesia	The research presents the evolution of Islamic accounting in Indonesia.
Antonio and Mukhlisin (2013) (Analysis on Determinants in Implementation of Accounting Standards for Islamic Financial Institutions; Narrative Study between United Kingdom and Indonesia)	Comparative study between Indonesia and UK for the IFIs financial reporting	This research differentiates the UK and Indonesia's motives by their different histories. In Indonesia, Islamic accounting standards were developed based on the needs of its society, whereas in the UK, IFIs report their financial reporting through the conventional lens (Antonio and Mukhlisin, 2013)

Chapter 4. Theoretical foundation of the study

4.1. Introduction

This chapter delivers the theoretical foundation of the study and consists of three main topics to construct the theoretical proposition. The three sections are as follows: section 4.2 defines the legitimacy theory as proposed by Suchman (1995); section 4.3 discusses evaluative and cognitive aspects as applied to accounting expertise; section 4.4 describes evaluative and cognitive aspect as applied to religious background. Section 4.5 presents the theoretical proposition. Finally, section 4.6 summarises and concludes the section

4.2. Legitimacy theory as proposed by Suchman (1995)

Individuals and organisations are inclined to be recognised by others through acceptance. Correspondingly, the entitlement status of acceptable actors is not limited to humans as solely actors; it goes beyond this individual characteristic to larger aspects such as organisations (Elsbach, 1994). In the broad context of social relations, the actions of organisations can be identified in order to seek acceptance among social actors and social values (Dowling and Pfeffer, 1975; Hurd, 1999). Thus, as organisations are perceived as recognised organisations, their activities will exist in simple or large society systems (Lipset, 1959). The recognition by others can be affected by actors' activities, for example through representation from repeated activities over time and continuously within the/a social environment. Consequently, the acceptance of others toward organisational activities is characterised as legitimacy which incorporates a societal beliefs system (Human and Provan, 2000).

This research specifically adopted legitimacy theory by Suchman (1995). Suchman (1995) comprehensively addresses legitimacy by identifying different types of legitimacy through evaluative as well as cognitive legitimacy. He describes legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, belief, and definitions" (Suchman, 1995, p. 574). Accordingly, Hurd (1999) supports the legitimacy definition given by Suchman as it aptly covers the role of individuals and organisations. The results of legitimacy would make an actor interested in being followed by other organisations based on standards, laws, rules and norms of society (Hurd, 1999).

Suchman (1995) creates a legitimacy typology with three different categories: pragmatic, moral and cognitive. Pragmatic legitimacy rest on a "self-interested calculation of an organisation's most immediate audience" (Suchman, 1995, p. 578). He explained that an immediate audience consists of an exchange of values between the organisation and its followers. The "exchange legitimacy" is the most basic type of pragmatic legitimacy as it highlights the reason for following other organisations due to an exchange of values between an organisation and the other organisations. Another type of pragmatic legitimacy is "influence legitimacy". This type of legitimacy occurs when an organisation's constituency prefers to follow other organisations due organisation acquire their largest interest. The last form of pragmatic legitimacy is "dispositional legitimacy". This type of legitimacy reflects the constituent's acceptance of organisational values due to personification of organisation (ibid).

Moral legitimacy relies on the social construction and evaluation by the organisation's followers via its activities (Suchman, 1995). Moral legitimacy also considers social values as a reason to follow other organisations and related to the right or wrong evaluation. This type of legitimacy can be sub-divided into four types. The first is defined as "consequential legitimacy", which presupposes that organisations are accepted by followers due to the activities of its organisation is judged based on the outcome. The second is "procedural legitimacy", which considers legitimacy as pertaining to socially accepted procedures or techniques, which have been undertaken by organisations to conduct activities. The third type is "structural legitimacy", where organisations tend to be followed by others due to structural values within organisation that are accepted as favourable by its followers. Lastly, the final type is "personal legitimacy", where perspectives are based on evaluation of organisational leaders through behaviour or attitudes such as the role of a charismatic leader which is something transitory and idiosyncratic (ibid).

In addition to moral legitimacy, cognitive legitimacy is another important category depicted in the legitimacy typology by Suchman (1995). This legitimacy is further divided into two sub-categories: (i) comprehensibility and (ii) taken-for-granted legitimacy. Comprehensibility demonstrates the action of organisation are seen as natural that is perceived being that way (Suchman, 1995). Furthermore, taken-for-granted legitimacy relates to situation when action or position of organisation are accepted by default (Suchman, 1995). Hence, taken-for-grantedness represents comprehensibility and the other way around. In addition, Jepperson (1991, p.147) noted that taken for granted reasons exist due to the common social construction of existence and purpose. For instance, a person may not well understand an institution, but they typically have historical information about the logic behind the existence of institution (Jepperson, 1991, p.147). Institution is treated as taken-for-granted due to cognitive accepted and needed as part of social environment and element of the environment (ibid). Accordingly, taken-for-granted… [legitimacy] represents the most subtle and…powerful source of legitimacy identified to date. If alternative become unthinkable, challenges become impossible, and the legitimated entity become unassailable by construction" (Suchman, 1995, p. 583).

4.3. Evaluative and cognitive aspect as applied to accounting expertise

This section provides a theoretical foundation for evaluation and cognitive aspects as applied to accounting expertise, particularly the logic and evaluation of accounting profession affecting legitimacy dynamics in accounting standards-setting. Accounting standards, as previously described in the literature review, provide an explanation that has far-reaching consequences for society. Accounting standards development evaluatively and cognitively affect not only certain financial consequences but also human behaviour. Due to accounting standards profound consequences, many institutions are keen to participate in the development of accounting standards. Tandy and Wilburn (1992) identify that participation in accounting standards development is important for two reasons: as a systematic approach of problem solving and because standards setting is important to ensure legitimacy of the standards setter. Accordingly, in order to endure, standards-setting should be able to maintain its legitimacy; otherwise standards will be viewed as unacceptable by society (Baylin et al., 1996).

Accounting profession in Indonesia is the sole actor responsible for the development of accounting standards. This argument refers to the fact that Financial Accounting Standards Board (DSAK) and Sharia Accounting Standards Board (DSAS) are subordinated by Indonesia Institute of Chartered Accountants (IAI). The infrastructure of accounting standards-setting in Indonesia is different from other countries (as presented in Table 2.3). In Indonesia, accounting standards are developed by the accounting profession, similar to as in India (see Table 2.3). However, IAI hosts two standards setters: DSAK and DSAS. Therefore, IAI is a very substantial accounting profession, responsible not only for organising the accounting profession but also for accounting standards development for Islam and conventional accounting standards. Due to this logic, this research argues that accounting profession in Indonesia is highly influential. Therefore, it is important to explore whether professional reason evaluatively and cognitively affects the legitimate perspective of accounting standards development.

Whether recognised or not, the role of professional expertise will be constant over time. Their existence is inclined to change between times in different forms or remain stable in the same form of expertise. Millerson (1964, p.10) describes the professionalisation of organisations as the transformation of a particular occupation into a profession. The study of professionalism was discussed by Abbott (2014, p.4), who described Carr-Saunders and Wilson as the first sociologists who studied and scrutinised the notion of professionalism and wrote the book "The Professions" which examined the existence and development of professionalism in the early 20th century and ultimately summarised the history of professionalism in England. Accordingly, experts maintain their role through various labour divisions such as doctors, accountants, lawyers and many other specialised occupations. Each labour segments are separated into various sub-categories of experts based on their interest and experience. Thus, profession has become a very important actor in the social structure of society.

Professions are essentially considered as an organised occupation with expertise who represent knowledge understanding. Profession is characterised for utilising examinations to filter and ensure the quality of occupational work (Abbott, 2014, p.11). The essential feature of professions are characterised through knowledge possession, incorporated training activities, postulated education, conducted examinations, assured integrity by adopting a code of conduct, serviced public needs, issued licences in relation to job opportunities and created symbols of their professions (ibid; Burns and Haga, 1977; Millerson, 1964). According to Millerson (1964, p. 9), the quality of professional status was dynamic and depended on the societal perceptions on the needs of the occupation. In order to be recognised as professionals, the occupation did not have to form a substantial organisational degree. However, it should provide quality and competency of services in terms of knowledge and experience. Additionally, it was vital to adhere to the professional code of conduct in order to control and maintain the quality of work (Millerson, 1964, p. 9).

In general, the evaluation and rationalisation of professionals in society was perceived as particularly important due to knowledge perception towards profession. Since the world is heavily engaged in the professional characteristic, this is often confused with the differentiation and characterisation of professional and non-professional occupation (Greenwood, 1966, p.10). However, one characteristic is that a given occupation is identified as professional through one's knowledge understanding. Professional and non-professional occupations apply knowledge as an underlying background for resolving problems, however, there is a difference in the level of knowledge possessed between them (Greenwood, 1966, p.10). The knowledge possession and support from work experience combine to enhance professional capability. Accordingly, Millerson (1964, pp.10-11) explained that there were specific fundamental characteristics in order to understand the concepts of a profession. Professions are high-graded occupations; thus, in order to be perceived as a profession, an organisation should be technically involved in the foundation of its knowledge. Accordingly, theoretical or systematic knowledge is typically embedded into specific knowledge. However, it is also shaping the role of professional work (Winch, 2014). Professionals elaborate their practice ability with the knowledge to resolve a problem. Greenwood (1966, p.11) states that the status of professionalism is strongly supported by knowledge understanding and development, which is called the "body of theory" where professionalism constitutes an association of knowledge interest. Thus, characterising professionalism as a knowledgeable institution is of the upmost importance to define what is a professional institution.

As stated previously, knowledge became a pivotal part for professionals to conduct their activities and embed the concept of professional authority into their professional work. Society relied heavily on their work as professionals to help resolve problems due to a lack of knowledge and competence from users (Greenwood, 1966, pp.10-11; Millerson, 1964, pp.10-12). The needs from society enabled professionals to give advice and recommendations. The difference between professional and non-professional organisation can be identified through the professional authority of profession using the terminology of client and customer (Greenwood, 1966, p.12). The word "clients" obviously differentiates clients from customers. According to Greenwood (1966, p.12), customers would have an awareness about their rights and the services. However, clients have a different meaning; they tend to believe what professionals did and recommended regarding their activity. A client has limited resources to understand their needs, and profession dictates what is considered as good or evil to them (ibid). Furthermore, they require professional help to be relied and trusted. Accordingly, professionals are crucial in assisting and helping problems to resolved. Thus, the positioning of the client as a subordinate of a professional institution is identified as a monopoly of judgement in order to gain professionalisation (Greenwood, 1966, p13).

Professional organisations in a society are run by formal and informal groups (Greenwood, 1966, p.16). Formal group institutions represent activities by professional organisations that perform their services through an institutionalised setting position between professionals and the clients, such as medical and educational institutions (ibid). Secondly, institutionalised professions are formed through professional ability to cater the availability of professional talent by adopting system of education. Another form of institutionalised position of profession in society also appears through engagement with society and even becomes impaired by its absence. The interaction between professional organisation and society is identified through the relationship between demand and supply. It exists due to the possession of a unique interest. The uniqueness could be based on various reasoning or "cliques", such as a variety of professional interests, social backgrounds, family, "religious or ethnic background" and other personal interests (ibid). Another interesting aspect of profession is explained by Greenwood (1966, p.16), who identifies the possession of a unique characteristic, whereby this uniqueness identifies as professional culture comprised of "values, norms, and symbols".

The accounting profession has been identified as a professional institution due to its qualification in presenting accounting knowledge. Thus, as a well-established professional institution, it is very interesting to identify the social perception of them (accountants). The accounting profession is perceived differently by society, for instance, the accounting profession applies an ethical perspective in maintaining their professional status (e.g. Fogarty, 1995; Rogers et al., 2005). The objective of maintaining their professional code of ethics is to gain legitimate status as a professional institution (Preston et al., 1995). The perception of accountants as a part of professional institution also changed, whereby previously negative stereotypes of accountants has transformed into a view of accountants as professional, well-educated, with expertise, ethical behaviour and a commitment to expanding the notion of entrepreneurship (Carnegie and Napier, 2010). Accordingly, the evaluative role of accountants is to manage and balance certain stereotypes and construct an image as accountants (Brouard et al., 2017) through image reputation and restoration (Rogers et al., 2005).[31] In addition, accountants also perceived through background of knowledge and education (Fisher and Murphy, 1995; Sikka et al., 1989). Contextually, profession is considered as a professional association that is primarily but not exclusively a political institution, which objectively not only defines, organises, and secures the interest of their members, but also engages in the role of regulating social practices and economic life (Willmott, 1986). Due to the effect that accountants become regulators in social practices, the accountant identifies as a monopolistic profession (Byington and Sutton, 1991). Accountants are also perceived as adopting certain ideologies and culture (e.g. Verma and Gray, 2006; Yee, 2009). In addition, by incorporating political aspects, accounting profession uses the terminology of individualism and moral rationality to protect the most threatened communities in society (Malsch, 2013). Furthermore, in addition to the image of accounting profession through its "shopping list"[32] professional characteristics, Burns and Haga (1977) argue that the ability to maintain influential power, as an intimidating character towards their followers, is important for the accounting profession. The characteristic of influencing and maintaining their interest, intimidation creates an "invisible criterion" as fundamental characteristics to differs the original profession from their copycat (Burns and Haga, 1977). This characteristic contains two sub-characteristics: "cruciality" and "mystique". The paper defines cruciality as the condition where other groups conceive the necessary of specific organisation within their community. Cruciality can be identified as the existence of organisations that are pivotal and crucial for others. Cruciality is perceived as an important matter which depends on the individual perceptions and interactions with its members. Another terminology to support intimidation is mystique. Mystique appears whilst society tries to find professionals to resolve their (society's) problems (ibid).

[31] In this research, Rogers et al. (2005) used image restoration theory by Benoit (1995), namely apologia. The theory assumes that communication is a goal directed by activities and that one of the goals during a period of crisis is to protect or respite image or reputation (Rogers et al., 2005). Rogers et al. (2005) investigated The American Institute of Certified Public Accountants (AICPA) as the most prominent accounting professional organisation in the United States for maintaining their position in the response of audit failure caused by audit activities at the boundary of auditing services. As the most substantial and granted legitimacy, AICPA is not only limited by doing business activities but also should manage expectations from society.

[32] According to Burns and Haga (1997), shopping list characteristics consist of certain attributes toward profession: (i) professions are occupation involved in benefitting the public; (ii) professions require long and specialised training; (iii) professions embrace a code of ethics; (iv) professions create association and organise meetings; (v) professions publish journals; (vi) professions use examination prior entry; (vii) professions do not need permits to advertise their service; (viii) professions limit the practice by issuing certificates; (xi) professions wear particular symbol or costume.

This section aims to provide a theoretical foundation for this research by identifying the evaluative and cognitive perception towards the accounting profession. The accounting profession is acknowledged as the occupation work of accounting expertise within the social construction of reality. The rationality towards accountants is presented in various perspectives, but is mainly related to knowledge competency Professional occupation should represent what other societies perceive about profession itself. In addition, a profession should be able to portray its image in society and become structurally required by society. Consequently, profession should be able to symbolise its knowledge capabilities and to be comprehended due to its professional characteristics.

This section shows how evaluative and cognitive aspects are perceived by the accounting profession. At first sight, the professional institution is an occupation distinct from other occupational institution. In general, profession is identified as a knowledgeable institution, embracing values and norms. Accordingly, the accounting profession is perceived cognitively as related to accounting knowledge. Thus, it is important to understand how the accounting profession engage in society, and the way in which the accounting profession is perceived by society in the accounting regulatory arena.

This research argues that the Indonesia Institute of Chartered Accountant has a significant role in society through evaluation and recognition. This reason emerges due to the unique character of IAI not only as an accounting profession responsible for maintaining accounting knowledge but also as the sole actor responsible for the development of accounting standards. Due to this logic, this research has proposed that legitimacy dynamics of accounting standards setting in Indonesia are affected due to the recognition and evaluation of IAI as a professional institution.

4.4. Evaluative and cognitive aspect as applied to religious background

This part discusses evaluative and cognitive aspect as applied to religious background (Islam, Indonesia in particular). Islam is a holistic religion, regulating human behaviour and interaction. In Islam, every Muslim should recognise five pillars[33] of Islam and six

[33] The five pillars of Islam consist of: i) *shahadah* (sincerely believe in Allah and Prophet Muhammad PBUH); ii) *salat* (five times obligatory ritual prayer a day); iii) *zakat* (obligatory alms to the poor); iv) fasting during month of Ramadhan; v) *hajj* (pilgrimage to Mecca)

axioms of faith (*iman*).[34] By accepting Islam, every Muslim should oblige to Islamic values. This section describes the role of Islamic actors as both cognitively and evaluatively engaged in the national spectrum, including in the development of accounting standards.

Muslims in Indonesia make up almost 90 percent of its population of 250 million. This massive portion represents the most significant shareholder in the country. While the spread of Islam was mainly through assimilation and conversion, Islamic scholars also played an important role during the early stages of Islam in Indonesia.[35] Even after independence, Islam became one of the principal factors in maintaining the existence of Indonesia.

As the largest Muslim population in the world, Islam in Indonesia is faced with both opportunities and challenges in its efforts to maintain its status in society. Identically, Islam in Indonesia is characterised through its peacefulness and moderate practices which incline towards democracy, modernity, plurality and human rights (Burhani, 2013, p. 25). Islam in Indonesia is moderate i.e. the followers are willing to co-exist alongside other religious beliefs in the open-minded perspective of democracy. Accordingly, the status of Islam in Indonesia is represented through political engagement between Islamic actors and other political entities cooperating and constructing the relationship between Islam and Indonesia through a secular identity.

In general, Islamic actors are present through *Ulema*. The definition of *Ulema* from Saeed (2003, p.14) can be broadly defined as "anyone who is formally trained within Islamic religious disciplines such as law (*fiqh*), theology (*kalam*), exegesis (*tafsir*), traditions of the Prophet (*hadith*), and [is] recognised as having a high degree of competence to deal with matters of religion." Derived from this definition, the engagement of *Ulema* in society is mainly divided into two categories based on their dependency and status from the government, namely the official and non-official *Ulema* (Saeed, 2003, p.14). Official *Ulema* are established because their role and support from the government, while non-official *Ulema* exist outside of government bureaucracy (ibid). Official *Ulema* exist for

[34] The six axioms of *iman* are: i) belief in Allah SWT as the one and only God; ii) belief in the existence of Angel; iii) belief in the holy books; iv) belief in Allah's SWT prophets; v) belief in day of judgement; vi) belief in predestination.

[35] Historically, Islam has been the dominant religion in the archipelago. The spread of Islam can be traced back to the 13th century, when it was recorded through the works of Marco Polo and Islamic travellers such as Ibn-Batuta, who travelled through the archipelago and described their experiences and local customs.

instance in Saudi Arabia where the foundation of Saudi government is supported from *Ulema* namely Abd al-Wahhab (Bligh, 1985). The reason why the government supports and contributes towards the *Ulema* is because it wants to control *Ulema* activities.

In the Islamic world, the *Ulema* has a reputation as as pivotal actor due to the separation between politics and religion. The clear separation between politics and religion existed long time ago, following the period *of al-khulafa' al-rashidun* (rightly guided caliph)[36] changed from participatory approach into autocratic leadership system (Saeed, 2003, p. 15). The separation between politics (*siyasa*) and religious aspects is differentiated by Saeed (2003, p. 17-20) for several reasons: i) the emergence of Islamic disciplines; ii) the notion of divine rule; iii) law as functional power; iv) theology as an expression of political hegemony; v) *Ulema*'s own political hegemony; and vi) the breakdown of caliph authority. Consequently, despite the separation between politics and religion, the *Ulema* become an important figure in modern society. Whether the state is either officially secular or Islamic, it has a tendency to protect the religious interest (Saeed, 2003, p. 25). The *Ulema* is perceived as an important figure in society by the recognition of *Ulema* as a legitimised institution through their role in law-making and the education system. Interestingly, the role of the *Ulema* has become important in maintaining the legitimacy of the state, for example, in Saudi Arabia and Indonesia the official *Ulema* often utilise their status and legitimise their position in order to participate in national development. Accordingly, by collaborating with the state, official *Ulema* strengthen their position significantly (ibid) and become embodied as an institution within a nation.

In Indonesia, the relationship between Islam and the government varies from one leadership to another. Islam can at times be politicised, depending on leadership period. Political leaders see Islam as a means to grasp power and establish authority over society. During the three main periods of leadership i) the old; ii) new order; and iii) the reformation, Islam as a religion and the actors in the Islamic world faced many different types of political intrigues. For instance, during the old period, guided democracy, Porter (2002, p. 40) noted that Islamic organisations such as *Muhammadiyah*, NU and other Islamic organisations formed the political party *Masyumi*[37] to represent the Islamic

[36] This period started with Abu Bakr, and was followed by Umar Ibn Khattab, Ustman Ibn Affan, and Ali Ibn Abi Thalib (632-661 AD) (Saeed, 2003, p. 16)

[37] *Masyumi* is an abbreviation of *Majelis Syuro Muslim Indonesia* (Council of Indonesian Muslim) Associations.

community and to compete with other political parties.[38] *Masyumi* played a prominent role during the period of parliamentary democracy (Porter, 2002, p. 40). However, the political status of *Masyumi* as a representative for Muslims soon changed due to political turmoil between nationalists, religious scholars and communists. In the 1960s, the first president of Indonesia, Soekarno banned Masyumi due to its connections with the rebellion (ibid).

Continuing Soekarno's old order (1945-1965), the new order (1962-1998) lasted approximately 32 years under Soeharto as the second president of Indonesia. During his leadership, one of his aims was to bring stability to the nation following the communist uprising in 1965. The relationship between Islam and Soeharto reflected a period of depoliticising the state and society in order to bring stabilisation. The depoliticising of Islam was achieved by dismantling Islamic political parties into one Islamic party (Porter, 2002, p. 40-41). This period is recognised as a period of neutralisation of Islamic political parties by the government. However, in July 1975, a new organisation was established and accommodated various Islamic scholars and organisations namely *Majelis Ulema Indonesia* / Indonesian Council of Indonesian Ulama (MUI). The establishment of this organisation was utilised by the Soeharto regime to control the Islamic community in Indonesia. The members of MUI was comprised of individuals who represented different Islamic organisational backgrounds. Indonesian Council of Ulema (MUI) is a non-governmental organisation that hosts *Ulama, Zu'ama*[39], and Islamic scholars in Indonesia to lead, nurture and guide Islamic communities (*Majelis Ulama Indonesia,* 2016).

The MUI was established as a result of discussions and cooperation between Ulama and Islamic scholars, who at that time came from different regions, backgrounds and organisations in Indonesia. Following decades of leadership and embracing different roles, *Majelis Ulama Indonesia* (2016) described the role of MUI as:

> "i) giving guidance for Islamic community in Indonesia to bring religious lives and blessed community by Allah *Subhanahuwa ta'alaa* (May he be glorified and exalted); ii) giving advice and religious fatwa and social activities towards government institutions and society for *Ukhuwah Islamiyah* (brotherhood based on Islam) and harmony across religion for solid national unity; iii) connecting

[38] There were four major political parties competing in the 1955 election: PNI (Partai Nasional Indonesia / Indonesian National Party), *Masyumi*, NU (*Nahdlatul Ulama* / Ulema's Revival), and PKI (*Partai Komunis Indonesia* / Communist Party of Indonesia).
[39] Leaders of Islamic organisations.

between Ulema and *Umaro* (government) and translating the reciprocal relationship between society and government for delivering successful national development; and iv) increasing relationship between Islamic organisation in delivering guidance towards Islamic community by advocating consultation and reciprocal information" (*Majelis Ulama Indonesia*, 2016a).

As mentioned previously, the establishment of MUI was the result of Soeharto's authoritarian rule to control all aspects of Indonesian society; however, after the resignation of Soeharto in 1998, Indonesia went throgh a reformation period (1999 until today). This reformation affected all aspects of the Indonesian political systems. For example, where previously Soeharto had been synonymous with militaristic rule, the military now is focused only on defence. The restrictions on political parties have also been abolished. Consequently, parties with religious dogmas are allowed to contest general elections. After the period of 1998 which is remembered as a time of liberalisation, the shift in Indonesian politics from an authoritarian to a more democratic system provided opportunities for all political beliefs to be voiced, including from Islamic organisations such as MUI. During Soeharto era's, MUI became a crucial part of government institutions that contributed to the government's need to legitimise its action (Hasyim, 2011). However, nowadays, new a chapter for MUI has opened in the post-Soeharto era.

Hasyim (2011) describes three ways of new MUI's orientations post-Soeharto through namely: (i) the focus has shifted from the state to the people; (ii) ideological changed from Pancasila to Islam; and (iii) the concept of *tenda besar*[40] (big tent). MUI's focus has changed; where it previously focused on the government's orientation, it now focuses on the people. The characteristics of this change does not mean that MUI does not only engage with government institutions anymore, rather that the orientation towards government has become less important than before (Hasyim, 2011). Accordingly, the change of preference is indicated by MUI as a strategy of survival, as this new perspective will lead MUI into being a new flexible institution and independent, without bearing the structural responsibility of entering into different dispute with the government (ibid). The second way is that, although MUI is based on Islam, the ideology of any organisation in

[40] The concepts of MUI as *tenda besar* is commonly used in Indonesia and MUI's role is to bring together various Islamic organisations in Indonesia. There are limited resources of articles that can be found with regards to the adoption of *tenda besar*. Only Hasyim (2011) used this term to identify the role of MUI in society

Indonesia during Soeharto's regime was based on Pancasila. After the reformation, this ideology then changed from Pancasila into Islam. The changing of ideological perspectives shows MUI interest towards Islam. This new ideology also reaffirmed that MUI was a representation of the Islamic communities in Indonesia regardless of their organisational background, and embraced the new political identity of Islam in the national contest. The third way is that MUI considered itself as *tenda besar* accommodating various Islamic organisations under MUI (Hasyim, 2011). Thus, the power of MUI in becoming *tenda besar* shows the legitimate position of MUI by other Islamic organisations.

As *tenda besar* for the Islamic community, MUI became the most authoritative Muslim institution in the field of *fatwa* production (Hasyim, 2011). *Fatwa* is identified as Islamic legal opinion (Hosen, 2004) produced by legitimate institutions for delivering religious interpretations regarding a particular Islamic issue. Majelis Ulama Indonesia (2016c) addess *fatwa* as a legal decision reflecting the sharia principal issued by DSN-MUI. The issue discussed in *fatwa* is not limited to religious matters. *Fatwa* varies characteristically with particular issues that reflect Islamic perspectives and knowledge. In Indonesia, *fatwa* had previously been used by the government through MUI for acknowledging government programme to ensure that they did not violate Islamic values; however, as the period changed and the objectives of serving MUI also changed, MUI became less dependent on the government (Hasyim, 2011). As identified by Hasyim (2011), after ten years of reformation, MUI has already attracted the attention of Islamic organisations, Muslim communities and non-Muslim communities by producing *fatwa*. MUI is not the only institution that can produce *fatwa*. Other organisations such as *Muhammadiyah* and *Nadhlatul Ulama* seem to adhere to MUI by not producing *fatwa* that contradict MUI's *fatwa* or create *fatwa* that MUI has already created (Hasyim, 2011).

In terms of structure, MUI has twelve commissions and nine departments or institutions[41] responsible for different functions (*Majelis Ulama Indonesia*, 2016c). One of them is the

[41] According to Majelis Ulama Indonesia (2016b), structurally *Majelis Ulama Indonesia* has 12 commissions: i) the *fatwa* commission; ii) *da'wah* (invitation) and community development; iii) law and regulation; iv) commissions of religious harmony; v) *ukhuwah Islamiyah* commission; vi) assessment and research; vii) information and communication; viii) empowerment of social economy; ix) Islamic art and culture; x) international relations and cooperation; xi) women, adolescence, and family commission; and xii) education and cadre commission. In addition to these 12 commissions, MUI has nine departments: i) department of food, medicine, and cosmetics assessment; ii) national sharia board; iii) books and Islamic contents validation; iv) centre of sharia business incubation; v) Islamic *da'wah* fund; vi) national sharia arbitrate; vii) special *da'wah* committee; viii) national movement of anti-drugs; and ix) environment and natural resources.

National Sharia Board (*Dewan Shariah Nasional* / DSN) which is responsible for verifying whether Islamic finance is aligned with sharia. On 10 February 1999, MUI established the National Sharia Board (DSN) objectively to create *fatwa* and to supervise and implement the development of sharia finance, businesses and economics in Indonesia. Since the establishment of DSN-MUI by MUI, it has issued 116 *fatwa*s (*Majelis Ulama Indonesia*, 2018).

The roles and responsibilities of DSN-MUI are described in articles 4 and 5 of Majelis Ulama Indonesia (2016c) as follows:

TABLE 4.1. DESCRIPTION OF ROLES AND RESPONSIBILITIES OF DSN-MUI

Article 4 (Roles of DSN-MUI)	Article 5 (Responsibilities of DSN-MUI)
1. Establishing *fatwa* for LKS, LBS, and LPS[42] 2. Supervising the implementation of *fatwa* through DPS in LKS 3. Creating *fatwa* implementation guidelines 4. Issuing announcements for LKS, LBS and LBS 5. Recommending a candidate or revoking recommendation of members of DSN for LKS, LBS, and LPS 6. Recommending an ASPM candidate or revoking an ASPM recommendation 7. Issuing a letter of sharia accordance or a sharia congruence of product and regulation from other authorities	1. Issue warnings to LKS, LBS, and LPS to stop any deviation from DSN-MUI *fatwa* 2. Recommending that institutions of authority take action if the warning is not followed 3. Freezing and cancelling sharia certificates for any violation by LKS, LBS and LPS 4. Approving and refusing any request from LKS, LBS, and LPS related to request to replace or dismissal of DPS member 5. Giving recommendations to related parties for the development of sharia finance, sharia businesses, sharia economics

[42] LKS (*lembaga keuangan syariah*/sharia financial institution), DPS (*dewan pengawas syariah*/sharia supervisory board), LBS (*lembaga bisnis shariah*/sharia business institutions), LPS (*lembaga perekonomian syariah*/sharia economic institutions), and ASPM (*ahli syariah pasar modal*/sharia capital market expert).

8. Issuing a letter of sharia accordance or sharia congruence of system, activity, product, and services in LKS, LBS and LBS 9. Issuing a sharia certificate of congruence for LBS and LPS 10. Organising a certification of sharia experts for LKS, LBS and LPS 11. Conducting socialisation and education for improving financial, businesses and sharia economic literation 12. Engaging in the growth of sharia implementation in economic and financial activities	6. Establishing partnerships and cooperation with various parties from national and international institutions for the development of sharia finance, businesses and economics

The *Ulema* are seen as important actors in Indonesian society. They have a historical background and legitimate support to justify their actions, specifically in a country such Indonesia where religion is a major issue, even though Indonesia is characterised as secular country. *Ulema* are accepted and acknowledged for their capacity to deliver religious knowledge such as law (*fiqh*), theology (*kalam*), exegesis (*tafsir*) and the traditions of the Prophet (*hadith*). The beliefs of the Muslim community toward *Ulema* are also traced back from Prophet Muhammad (Peace be upon him) hadith mentioned *Ulema* as: "Islamic scholar (*Ulema)* is the successor of the Prophets". Thus, this study argues that society tends to take-for-granted what *Ulema* have done. Due to the inclination to trust and believe the *Ulema* (including following decisions made by *Ulema*), cognitive biases due to religious belief are present in daily life in Indonesia, and these affect legitimacy in accounting standards development.

4.5. Theoretical proposition

This research explores and compares the legitimacy dynamics of conventional and Islamic accounting standards setting process, particularly the cognitive biases embedded due to professionalism and religious considerations. Adopting the work of Suchman (1995) in legitimacy theory, accounting standards-setting in Indonesia has been identified through two primary sources: conventional and sharia accounting standards. Hence, this proposition focuses on exploring and contrasting the evaluative and cognitive aspects of legitimacy issues in accounting standard-setting process in Indonesia, in particular the cognitive biases embedded due to professionalism and religious considerations.

In accounting standards development, cognitive biases emerge from a lack of strategic evaluation (Stenka, 2016). This argument is based on the actions of regulators who have the tendency to be accepted inside and outside of the accounting regulatory field (Stenka, 2016). Accordingly, this perception relates to taken for granted when the natural world and natural beliefs are embedded in a system of thought (Bourdieu, 1977). In addition, "taken-for-granted… [legitimacy] represents the most subtle and…powerful source of legitimacy identified to date. If alternative become unthinkable, challenges become impossible, and the legitimated entity become unassailable by construction" (Suchman, 1995, p. 583). Accordingly, taken for granted legitimacy is depicted by the followers of accounting standards from their understanding of accounting standards boards which have the ability and knowledge to develop accounting standards. This means that society tends to rely on accounting standard boards, as it is assumed that they are knowledgeable and trustworthy in developing accounting regulations. In other words, this legitimacy is based on followers' perception that organisational legitimacy is essential due to knowledge limitation (Stenka, 2015). Stenka (2015) points to the existence of cognitive biases in accounting development, thus further inquiry may expose particular types of these biases such as those due to professional and religious considerations. The emergence of taken for granted legitimacy assumes that users and society perceive lack of knowledge and understanding regarding accounting matters. Therefore, due to this lack of knowledge and information, society tends to rely heavily on other institutions such as the accounting standard board and accountants. And yet, the trust and belief towards the religious background presents cognitive biases due to religious consideration.

Accounting standards in Indonesia is developed by professional institutions. In contrast, FASB as accounting standards setter in the US cannot claim the privilege of being a government institution or the accounting profession (Hopwood, 1983b, cited in Young, 1994, p.88). Therefore, they need appropriate logics to justify and construct their action in accounting standards regulatory spaces (Young, 1994). However, this research provides background information that IAI is only responsible for accounting standards development through the existence of DSAK and DSAS, for both conventional and sharia accounting standards. In addition, IAI is the only accounting profession recognised by the government through government regulations. IAI identifies whilst maintaining its professional status as a professional institution and also maintaining its status quo as regulator (in the development of accounting standards in Indonesia). Therefore, the privileged status of the accounting profession is institutionalised in and out of the regulatory arena, thus taken-for-granted legitimacy appears due to the recognition of and inclination towards professional reasons. The *Ulema* is well-known as a pivotal actor in Indonesia, particularly the way in which DSN-MUI assistance and guidance related to Islamic finance includes Islamic accounting development. The influence of the *Ulema* in accounting standards development reveals the significance of cultural values, religion in particular, to the development of accounting standards (Hamid et al., 1993; Tomkins and Karim, 1987). Accordingly, the role of Islamic values, concepts and symbol(s) towards politics and the nature of the state is identified as Islamic legitimacy (Fealy, 2003, p.151). As a consequence, despite the fact that accounting standards in Indonesia is legitimised due to the professional reasons, another factor also contributes to the development of accounting standards namely religious considerations[43] that also affects legitimacy of accounting standards. In addition, accounting standard boards in Indonesia are comprised of religious actors who represent the religious institutions. The participation of religious actors in accounting standards-setting is imperative. Therefore, this research has also addressed Napier's (2009) paper, which highlighted the need for research in Islamic accounting through the lens of "the use of accounting by states and governments, the characteristics of groups for preparing accounts, and the roles of accounting in organisations" (Napier, 2009, p. 136).

Furthermore, the emergence of religious background and professional values show a different cognitive acceptance of accounting standards development, especially how religious background and professional reason cause legitimacy in accounting standards development. Conceptually, sharia accounting standards development in Indonesia relies

[43] This research uses religious consideration because Islam plays a significant role for Muslim communities in the domain of personal identity. Islamic identity and awareness may have the possibility to overcome the disadvantage of Islamic banks compared to conventional banks, as is discussed by Basov and Bhatti (2014). The paper argued that these disadvantages could be overcome via the mitigation of employers. The employers should have non-financial reason to work in Islamic banks such as religious reason (Basov and Bhatti, 2014).

on religious background. By comparing cognitive biases due to professionalism and religion, the proposition is that although the accounting profession plays a great role in the development of accounting standards, particularly sharia ones, the reliance of sharia standards on sharia is greater than the reliance on the accounting profession. Arguably, cognitive biases based on religious considerations are greater than professional reasons in the development of accounting standards.

In summary, the main objective of the research is:

To explore and compare the evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standard setting. In particular, to explore and compare cognitive biases embedded in professional expertise and religious beliefs.

To address the main objective of the study, two main research questions have been developed from the theoretical framework:

1. ***What are the main drivers of evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standard setting in Indonesia? What are the differences?***
2. ***How different are cognitive biases embedded in professional expertise and religious beliefs and how do they influence the legitimation process in accounting standard setting?***

4.6. Conclusions

This study adopts Suchman's (1995) theory on legitimacy building blocks to explore and compare the legitimacy of the accounting standards-setting process in Indonesia by contrasting the Islamic and conventional accounting standards-setting process. It also explores and contrasts cognitive biases embedded due to professional reasons and how religious beliefs affects the legitimacy dynamics.

This chapter discusses Suchman (1995) as the main topic in addressing the legitimacy issue of accounting standards setting in Indonesia. Problems arise in this resarch when dual standards-setter (DSAK and DSAS) work in parallel and subordinate under a single institution, namely the Indonesia Institute of Chartered Accountants. Arguably, accounting standards setting in Indonesia operationalise under the accounting profession. However, this paper also identifies factors affecting the accounting standards development, such as religious background. Thus, the questions raised were to explore and evaluate the legitimation dynamics of conventional and Islamic accounting standards-setting, and in particular, to compare the cognitive biases embedded in professional expertise and religious beliefs.

In the next chapter, the data collection and methodology are presented

Chapter 5. Methodology and data

5.1. Introduction

Chapter 5 presents the methodology and data undertaken for this research. This chapter is divided into five sections: section 5.1 is the introduction; section 5.2 discusses the research philosophy; section 5.3, the methodological viewpoint, consists of sections 5.3.1 and 5.3.2 which review the research method and research sampling, respectively; section 5.4 presents the research data, and consists of section 5.4.1 on thematic analysis and 5.4.2 on research validity; and section 5.5 concludes the chapter.

5.2. Research philosophy: Interpretivism

The objective of this research is to explore the legitimacy dynamics of accounting standards setting in Indonesia compared between the conventional accounting standards-setting and the Islamic accounting standards-setting. Accordingly, the research aims to understand the perception of actors in the development of accounting standards. This research argues that the perception of social actors towards accounting standards-setting process can be unveiled through their evaluation and cognitive experience in the real world. Thus, in order to comprehend the legitimacy perceived in the standards setting process, this research adopts an interpretivism paradigm[44].

The paradigm of interpretivism is derived from phenomenology and hermeneutics paradigm. The study of interpretivism relates to "study of social phenomena requires an understanding of the social world that people have constructed and which they reproduce through their continuing activities" (Blaikie, 2007, p. 124). In addition, the interpretivism paradigm also relies on the context that all research is influenced and shaped by pre-existing theory (Willis et al., 2007, p. 96).

[44] This research philosophy itself is interpretive research, although this research is linked with critical perspective. As described by Prasad and Prasad (2002, cited in Gendron, 2018), critical and interpretive research are somewhat overlapping. In addition, the boundary of critical research is unstable and varies (ibid). The nature of critical research is "to inform people of the ways in which their subjectivity is subject to power" (ibid). This research's objective is to explore and contrast the legitimacy dynamics of accounting standards setting process. The legitimacy itself relies on acceptance by its followers. By accepting other and perceived as legitimate organisation, the standards-setter becomes the source of power in the standards-setting process.

Table 5.1. The difference between post positivism, critical theory, and interpretivism

	Post positivism	**Critical theory**	**Interpretivism**
Nature of reality	External to human mind	External to human mind	Socially constructed
Purpose of research	Find universal	Uncover local instances of universal power relationships	Reflect understanding
Acceptable methods and data	Scientific method, objective data	Subjective research based on ideology and values, both quantitative and qualitative data are accepted	Subjective and objective research method are acceptable
Meaning of data	Falsification and used to test certain theory	Interpreted through ideology	Understanding is contextual and universal are deemphasized
Relationship of research to practice	Separated activities, research guide practices	Integrated activities, research guides practice	Integrated activities, both guide and become the other

Source: Willis et al. (2007, pp. 83,95)

According to Blaikie, 2007 (p. 179), the construction of interpretivism relates to idealist ontology and the epistemology of constructionism. Ontology is defined as the nature of knowledge. In social research, ontology addresses the nature of social reality (ibid, p.13). Idealist ontology argues that the "external world consist[s] of representations that are creation of human minds" (ibid, p. 16). The idealist ontology defines the unique character of humans as social phenomena instead of a natural perspective. Social action by humans is not only characterised as behaviour but instead as a process of meaning-giving. Thus, the social reality consists of the shared interpretations that social actors produce and reproduce in everyday life (ibid, p. 17).

Epistemology responds to the question of how we acquire knowledge. In other words, it is a theory how human beings have come to have knowledge of the world around them (ibid, p. 18). Accordingly, this research adopts the epistemology of constructionism. Constructionism is defined as “knowledge [that is] neither discovered from an external reality nor produced by reason independently of a such reality. It is the outcome of people having to make sense of their encounters with the physical world and with other people” (ibid, p. 22). As a consequence, from this philosophical background, a methodology shall be employed to address the research objective and research questions.

5.3. Research methodology: Qualitative interview

This research applies a qualitative interview approach to understand the core meaning of legitimacy in accounting standards setting in Indonesia. Qualitative interview research attempts to understand the world from the interviewees’ viewpoint with regard to unveiling certain phenomena based on experience (Brinkman and Kvale, 2015, p. 3). The choice of qualitative interview methodology to address legitimacy is also applied by other research (e.g. Durocher et al., 2007; O’Dwyer et al., 2011).

Methodology and method are described as follows:

> “Research methods as the technique or procedures to collect and analyse data. Methodology, on the other hand, refers to discussion on how research is done or should be done, and to the critical analysis of methods of research”. (Blaikie, 2000, p.8)

Adopting an abductive approach, this research objective is derived from social actor language to generate new ideas or knowledge (Blaikie, 2007, p. 89). Blaikie (2007, p. 90) explains the abductive approach as theory construction based on interpretation, meaning, motives and intention from people. Accordingly, this research aims to evaluate and explore the dynamics of legitimacy in accounting standard setting, particularly the professional aspects and religious representativeness in the standard setting process, adopting Suchman’s (1995) legitimacy theory.

5.3.1. Research method: Semi-structured interview

This research employs a semi-structured interview method to collect the data, objectively, to obtain better understanding of nature and personal perceptions (Brinkmann, 2014, p. 286). The semi-structured interview could provide an in-depth understanding of people's perspectives as opposed to a formal, structured interview (ibid, p. 286). This questioning technique utilises additional questions to obtain more profound reasons. Following the literature review of conceptual frameworks, and semi-structured method of interviews, this research develops three main questions in order to explore the dynamics of legitimacy and the perceptions of professional reason and religious consideration in driving legitimate perception. The questions consist of three main interview questions which aim to obtain cognitive understanding of accounting standard setting namely:

1. What are the main factors/key players/institutional influences that you believe to have impacted (explicitly as well as implicitly) the development of accounting standards in Indonesia?
2. Could you elaborate further on the nature and sources of those influences, i.e. the official as well as unofficial authority that these factors have on the development of accounting standards?
3. How do you think conventional and Islamic regulatory process differ? What are, in your opinion, the underlying reasons for the differences?

Accordingly, there were no specific or mandatory guidelines with regard to the number of interviewees, and thus depend essentially on the researcher's focus (Dai and Free, 2014).[45] In this research, the number of people interviewed was 34.

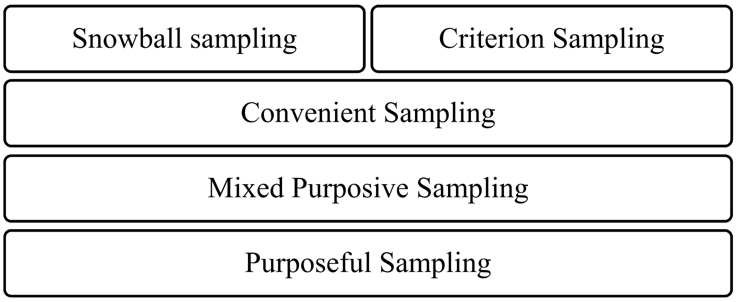
5.3.2. Research sampling: Mixed purposive sampling

This research followed the terminology of purposive sampling to justify the data collection approach and method. According to Patton (2002, p. 230), purposive sampling is applied both in positivism and qualitative research. However, the differences appear when positivism generalises the phenomena based on randomly selected samples and population, while qualitative research purposively selects samples so as to obtain a rich

[45] This conclusion was based on data synthesised from various high-ranking journals: (1) Accounting, Auditing, & Accountability (AAJ); (2) Accounting, Organisations, and Society (AOS); (3) Contemporary Accounting Research (CAR); (4) European Accounting Review (EAR); (5) Journal of Management Accounting Research (JMAR); and (6) Management Accounting Research (MAR) between 2000-2014

understanding of the limited sources of data for answering the research phenomena (ibid). There are 16 types of justifications for conducting data collection based on purposive sampling, according to Patton (2002, pp. 243-244).[46] This research used a combination of mixed purposive sampling and applied three styles of justification to collect the data: convenient, snowball and criterion sampling. These three sampling styles is dynamics as this research has combined these characteristics to obtain the data. Convenient sampling is the most common sampling selection as it is cost efficient and time allocation toward data selection (ibid, p. 244). The criterion sampling selected is based on certain criteria to select interviewees, while snowball sampling selection is interviewees' identification based on people who know people to understand the case (ibid, p. 243).

FIGURE 5.1. SAMPLING SELECTION JUSTIFICATION



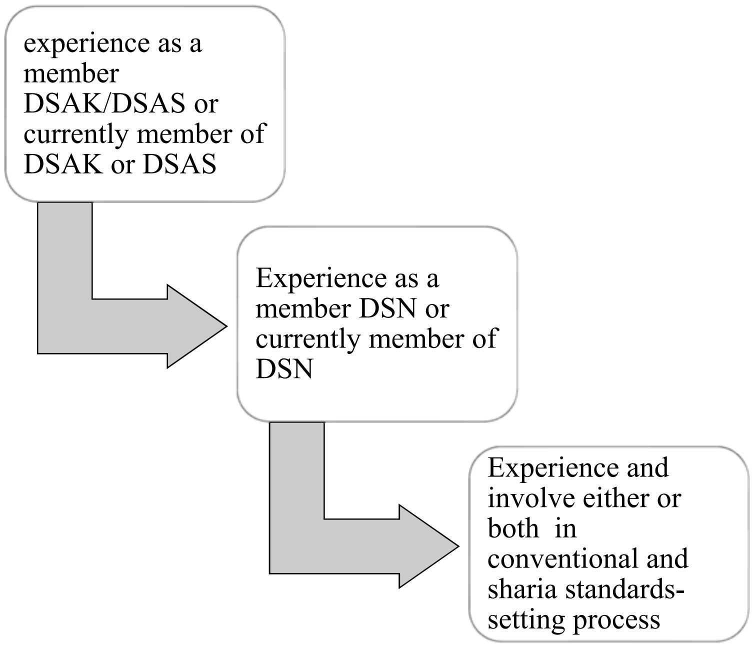
5.4. Research data

Following the above assumption and framework, 34 interviewees were selected for this study. Adopting mixed-purposive sampling, this research adopted convenient sampling as a basis type, followed by theory and criterion sampling. This research adopted a convenient assumption due to the limited time for data collection as well as the availability of the actors related to standards-setting process and the availability of the interviewees. Convenient sampling was followed by snowball sampling and reinforced with criterion sampling.

[46] Patton (2002, pp.242-243) distinguishes 16 styles of purposeful sampling; each sampling style justifies the application of purposive sampling into qualitative research. These sampling are: i) extreme deviant sample, ii) intensity sampling, iii) maximum variation sampling, iv) homogeneous sampling, v) typical case sampling, vi) critical case sampling, vii) snowball sampling, viii) criterion sampling, ix) theory-based sampling, x) confirming and disconfirming cases, xi) stratified purposeful sampling, xii) opportunistic sampling, xiii) purposeful random sampling, xiv) sampling politically important cases, xv) convenience sampling, xvi) combination or mixed purposeful sampling.

The research interview raises the question of whether there are different actors in standards setter both for sharia standards-setting process and conventional standards-setting process. The second question is related to the nature of influence of standards-setting. The last question how different is the Islamic accounting standards-setting compared to the conventional standards-setting process. Following these questions, this research has used the central theory that professional accountants are the main actors in standards-setting. Interestingly, based on the literature, the role of DSN or sharia scholars has become influential in the development of sharia accounting standards. The research's criterion selection for the interviews are as follows:

FIGURE 5.2. INTERVIEW CRITERION SELECTION



The 34 individuals interviewed were representatives from different groups and backgrounds: Academics (AC), Government Institutions and Regulators (G), Preparers (P), and Audit Institutions (AU), Sharia Accounting Scholars (SAS), and Sharia Institutions (SI). Academics represent individuals who are positioned in accounting universities who have previous experience and involvement in the standards-setting process or were previously a member of DSAK or DSAS. Government Institutions and Regulators are individuals who represent government institutions such as the Ministry of Finance, the Financial Market Authority (OJK), Bank Indonesia, DSAK or DSAS and other institutions. The individuals who are in this group are accountants who either have experience in the standards-setting process or are members of the standards board from government institutions. Preparers are individuals that are either members of DSAK or

DSAS and have experience in the standards-setting process as well as a member of an institution that prepares financial statements. Audit Institutions are individuals who are high-level executives of audit companies or members of DSAK or DSAS and have experience in the standards-setting process. Sharia accounting scholars are accounting academics who have experience in the sharia standards-setting. Sharia institutions are individuals who are members of DSN-MUI or religious scholars with experience in the standards-setting process. In this study, nearly all of the interviewees are experienced in either sharia or conventional standards-setting processes, or both, and are also professional accountants in Indonesia.

TABLE 5.3. INTERVIEWEES GROUP DETAIL

Interviewee group	Number of interviews
Academics (AC)	8
Government institution and regulator (G)	9
Audit institution (AI)	4
Preparer (P)	4
Sharia accounting scholar (SAS)	6
Sharia institution (SI)	3

The interviews were conducted from February to April 2017 in different cities in Indonesia, and one interview was conducted in the UK. The location of the interviewees in Indonesia were: Jakarta, Yogyakarta, Surakarta and Malang. Jakarta is where most of the interviewees were found (19) followed by Yogyakarta (11), Surakarta (2), and Malang (1). The chosen location of the interview was selected due to the interviewees' convenient time.

In terms of data recorded, within the academic group the longest interview is by AC.2 and lasted 47 minutes, while the shortest interview is by AC.4 which lasted 12 minutes. In the Government Institution and Regulator group, the longest interview is by G.5 at 35 minutes, while the shortest interview is by G.1 at 11 minutes. For the Audit Institution, the longest interview is by AU.2 and AU.3 at 44 minutes, while AU.4 was at 19 minutes. For Preparer, the longest interview is recorded at 23 minutes by P.1 and P.3, and the shortest is recorded by P.2 at 18 minutes. In the sharia accounting scholars group, the longest interview is by SAS.2, compared to SAS.6 for longest and shortest by 35 minutes and 19 minutes, respectively. The most extended interview for a sharia institution was 43 minutes for SI.3, compared to 16 minutes by SI.1. Comparing all the interviewees, the longest interviewee is AC.1 with a 47 minute-long interview, while the shortest is by G.1 at 11 minutes. The average time of each interview was 25 minutes. The total time recorded for all the interviews was 838 minutes. The data was transcribed and translated by a professional to reduce personal writer biases. However, during transcribing and translation, the data was checked simultaneously by the writer in order to maintain language consistency. The interviewees' confidentiality has been protected in the data presentation by using code names or aliases.

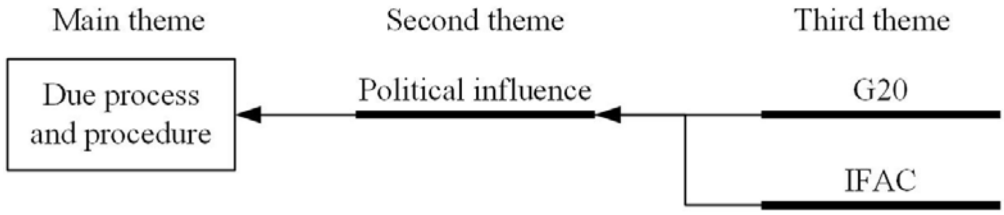
5.4.1. Thematic analysis and coding

This research applies thematic analysis and classifies the data according to Suchman's (1995) legitimacy typology. According to Boyatzis, (1998, p. 1) thematic analysis is a way of seeing a particular observation, recognising an important moment that precedes encoding and turns into interpretation. Researchers use thematic analysis in order to find a pattern, or theme from certain information (ibid). Fundamentally, thematic analysis is a process used in qualitative inquiry to encode qualitative information based on certain themes or indicators (ibid, p. 4). By using thematic and adopting Suchman (1995) legitimacy theory, this research identifies the main themes of legitimacy of accounting standards setting in Indonesia based on the interviewees' perception.

This research applies the theoretical proposition described in chapter four and adopts Suchman's (1995) legitimacy typology to identify issues of legitimacy dynamics in accounting standards-setting and the role of professionalism and religious biases embedded in the standards-setting process. It aims to use Suchman (1995) legitimacy typology to identify and code the issues of legitimacy perspective both evaluatively and cognitively in the standards-setting process in Indonesia, based on interviewee perceptions. The codes among interviewees are then compared and generalised with a view to identifying the main themes and perspectives between issues and reasons with regard to legitimacy dynamics.

Below is a coding sample and themes selection in this research; this example is taken from due process and procedure theme of this study:

FIGURE 5.3. EXAMPLE OF CODING AND THEMES SELECTION



G20 : "The agreement of G20 countries has a clause that accounting standards must converge with IFRS. It is a necessity even for other countries such as Australia which has fully adopted IFRS standards, and also the US which also refers to IFRS. That is why we have to perceive the same business terminology which allows foreign investors' to understand our financial report and then enables them knowing how the appropriate treatment for it is" (G.4)

IFAC : "Indonesia is one of the G20 countries, so once the government invites the investor to invest in this country, there will be a demand from the international world that Indonesia must be transparent and show that it has adopted the international standards. Moreover, from the profession perspective, The Indonesian Institute of Chartered Accountant of IAI has been part of the International Federation of Accountants (IFAC) and commits to urge the use of international standards by most of its members. Alternatively, each member of IFAC is asked to implement and commit to the international standards" (AC.5)

5.4.2. Research validity

Maintaining validity is an essential issue of qualitative research. A valid study is one that has appropriately collected and interpreted its data so that the conclusion accurately reflects and represents the real world that was studied (Yin, 2011, p. 79). Accordingly, Yin (2011, p.80) identified the various types of practice related to overcoming bias and strengthening the validity of research based on Maxwell's (1996, p. 87) work, namely: intensive long-term field involvement, rich data, respondent validation, search for discrepant evidence and negative cases, triangulation, quasi-statistics and comparisons. The application of each practice of research validation depends on the research context.

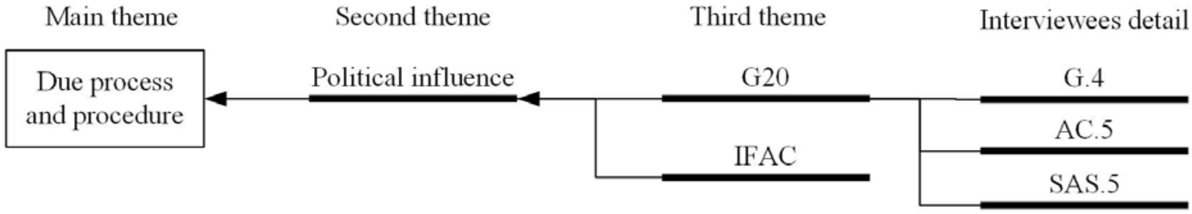
Accordingly, most validation practices are easy to understand and each of the practices represents a “choice” to be integrated into the research design (Yin, 2011, p. 80). One of the types of validation is through triangulation, which captures and reports multiple perspectives rather than seeking a singular truth (Patton, p. 546)**.** Triangulation is used to compare and contrast different perspectives of interview results in order to capture the thematic analysis of the interviewees. Patton (2002, pp.555-562) describes four types of triangulation to increase the credibility of qualitative research: i) methods triangulation; ii) triangulation of sources/data; iii) analyst triangulation; and iv) theory/perspective triangulation.[47] The application of source triangulation consists of several types: i) comparing between different interviewees; ii) comparing explanations from different environments (e.g. public vs private); iii) identifying the consistency of interviewees; iii) comparing the perspective of people from different backgrounds; and iv) checking interviews against written documents (ibid, p.559).

This research uses this particular type of source triangulation (Patton, 2002, p. 559) to strengthen the data analysis. Source triangulation of Patton (2002, p. 559) is related to Denzin (1978, p. 103) data triangulation. Data triangulation is a multiple concrete situation applied by the researcher to enhance research validity in order to establish the observational base (ibid). There are two reasons for using source triangulation: i) to ensure the consistency of perceptions amongst interviewees and ii) in order to compare perspectives between interviewees from different backgrounds. Criterion sampling as identified by Patton (2002, p. 243) is applied to increase the data reliability of this research regarding the interviewee’s selection and identification. The criterion selection is applied to address the issue regarding themes and data consistenc. The consistency of interviews helps to identify the similarity of themes found from one interview to another, while comparing perspective helps to identify diverse and in-depth themes regarding theoretical foundation of this research. In addition, to ensure the replicability of the thesis, this research utilised inter-rater to code of the data.

Below is an example of source triangulation applied in this research, taken from the due process and procedure theme of this study:

[47] Methods triangulation: checking the consistency of findings generated by different data collection methods; triangulation of source: checking out the consistency of different data sources within the same method; analyst triangulation: using multiple analyst to review findings; theory/perspective triangulation: using multiple perspective or theories to interpret the data.

FIGURE 5.4. EXAMPLE OF SOURCE TRIANGULATION



G20 influence:

a) "The agreement of G20 countries has a clause that accounting standards must converge with IFRS. It is a necessity even for other countries such as Australia which has fully adopted IFRS standards, and also the US, they also refer to IFRS. That is why we have to perceive the same business terminology which makes it easier for foreign investors to understand our financial report and next enables them knowing how the appropriate treatment for it is" (G.4)
b) "It means the government are interested in making the national economy more transparent including when they have invited investors. They have to show a finance transparency report by handling all financial reporting of industries all over Indonesia, since inviting the investors can mean directly investing in real sectors or finance sectors through the capital market. Moreover, once it is through the capital market, it must be transparent, supported by G20 and the profession by adopting the international standard" (AC.5)
c) "I believe that the government needs IAI as their assistance to implement the government's vision. Its success also depends on the response and collaborative work from IAI. In the case of general PSAK, after the government had signed as part of G20, it made the government commit to using the standards of IFRS. Thus, they ordered IAI to converge our standards and to make it comply with IFRS" (SAS.5)

This research also addresses reflexivity issue since it is important to address. Research reflexivity is identified as "a way of emphasising the importance of self-awareness, political/cultural consciousness, and ownership of one's perspective" (Patton, 2002, p. 64). This research investigates legitimacy dynamics accounting standards-setting between conventional and Islamic accounting standards and cognitive biases based on professional and religious reason associated with the reality of social construction of accounting standards setting in Indonesia. This research already has presented the logics behind the development of theoretical proposition which is based upon: (i) legitimacy theory by Suchman (1995); (ii) evaluative and cognitive aspect of professional reason; and (iii) evaluative and cognitive aspect of religious considerations. To address legitimacy dynamics, the proposition explains the pivotal reason for the standards-setter to be perceived as a legitimate institution. In Indonesia, IAI is an independent institution, responsible for the development of conventional and Islamic accounting standards in Indonesia. For professional reason, this research identifies how accounting profession is generally perceived in Indonesia, while the previous section presents how the historical development of accounting profession and its privileged status in society makes it responsible for the development of accounting standards in Indonesia. The last theme is related to Islamic considerations. In Chapter 2 Research Background and Chapter 3 Literature Review, this research explains the development of Islamic accounting standards in Indonesia. In Chapter 4 Theoretical proposition, this research presents how Islamic actors have a possible effect on Islamic accounting standards development. Accordingly, this research has addressed the issues of research reflexivity.

5.5. Research conclusions

In conclusion, this section closes the discussions related to research philosophy, methodology and data. The chapter has discussed the research philosophy adopted by this study, namely interpretivism. To address the research objective and research question, this research adopts a qualitative interview study and a semi-structure interview method. To analyse the data, this research used thematic analysis to find the common themes. To strengthen the research validity, this research adopts source triangulation by Patton (2002, p.559).

The data was collected from 34 interviewees located in different parts of Indonesia. The background of the interviewees varied according to their work experience and positions. The study identified six groups of interviewees: academics, government institutions and regulators, audit institutions, preparers, sharia accounting scholars and sharia institutions.

The next chapter 6 presents the analysis and discussion of the research

Chapter 6. Analysis and discussion

6.1. Introduction

This chapter reports the analysis and discussion of the current research regarding the legitimacy of accounting standards-setting process in Indonesia. This research identifies three inter-linked factors of legitimacy dynamics, all of which are drawn from interviewees' perception of standards-setting process in Indonesia. These three themes of legitimacy dynamics are: i) legitimacy due to historical context; ii) legitimacy due to due process and procedure; and iii) legitimacy due to biases embedded in professional considerations and in religious beliefs. The types of legitimacy by Suchman (1995) are found by this research not to be not partial per se, but rather dynamic from one type to another.

This chapter is organised as follows: section 6.2 describes the historical background, including a translation of international standards, and presents the legal and political context. Section 6.2.1 relates to translation and the convergence of international standards. Legitimacy as a result of translation of US GAAP and IAS is discussed in section 6.2.1.1, followed by section 6.2.1.2 which deals with the subject of IFRS convergence. Section 6.2.2 presents the political influence of G20 and IFAC, and section 6.2.3 sets out the legal perceptions of accounting standards-setting.

Following the historical perspective, section 6.3 identifies the acceptance of accounting standards-setting through due process and procedure evaluation. Section 6.3.1 consists of due process and procedure on moral evaluations of due process. Section 6.3.1.1 tackles the moral reasons of following the international due process.

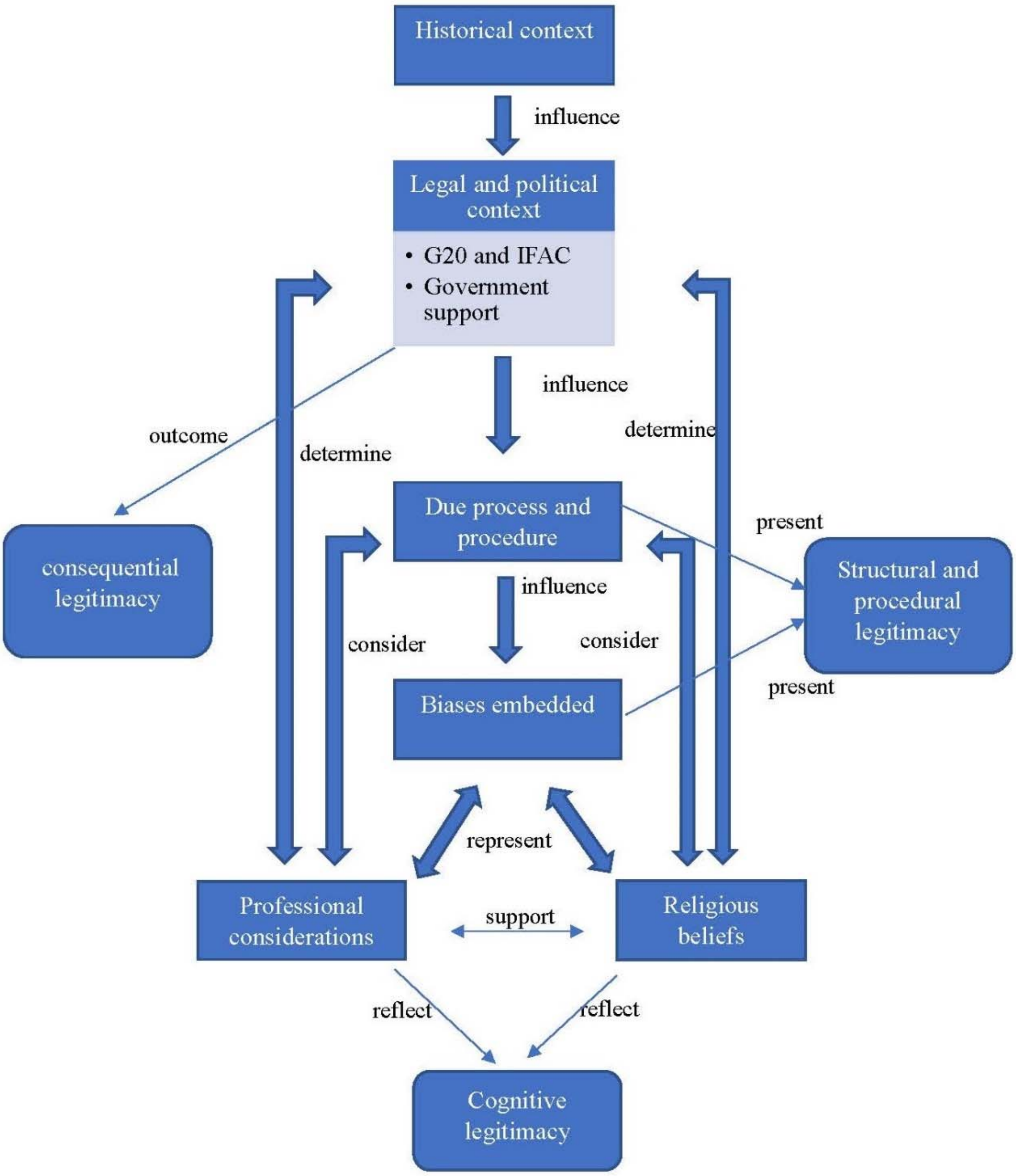
Section 6.4 identifies the last themes of biases embedded in professional considerations and in religious beliefs. This section is comprised of four sub-sections. Section 6.4.1 looks at legitimacy based on professional considerations, section 6.4.2 presents the religious consideration of the standards-setting process, section 6.4.3 presents cognitive biases due to professional considerations and section 6.4.4 is on cognitive biases due to religious beliefs. Section 6.4.1 is on legitimacy due to professional considerations. Section 6.4.1.1 is on cognitive structure of IAI and section 6.4.1.2 is on the rationale of accountants. Section 6.4.2 discusses the religious reasons for standards-setting. Section 6.4.2.1 looks at the role of sharia principle and *fatwa*, and section 6.4.2.2 is on the role of Islamic actors.

Section 6.4.2.2 is on role of Islamic principles and *fatwa.* Section 6.4.2.2.1 describes *fatwa* as the foundation of sharia standards, and section 6.4.2.2.2 is on *fatwa* as moral and procedural acceptance.

Section 6.5.1 looks at legitimacy dynamics of accounting standards in Indonesia, and section 6.5.2 looks at cognitive biases due to professional considerations and religious beliefs. Lastly, section 6.6 summarises the chapter.

Figure 6.1 below depicts the relationship between historical and political commitment and the legal context in constructing the legitimacy of the accounting standards-setting process in Indonesia.

FIGURE 6.1 THE CONSTRUCTION OF LEGITIMACY DYNAMICS OF ACCOUNTING STANDARDS-SETTING IN INDONESIA



6.2. Historical, political and legal contexts of accounting standards

This section presents the historical context, including the political and legal aspects, in causing the legitimacy of accounting standards setting in contemporary Indonesia. The importance of the historical, political and legal context is acknowledged by interviewees as the foundation for accepting accounting standards-setting process in Indonesia through its historical perspectives.

The historical reason for accepting accounting standards-setting in Indonesia consists of evaluating the capital market establishment, the adoption of international standards such as US GAAP, IAS and IFRS. Furthermore, the political influence between local actors (government and IAI) and international actors (World Bank, G20 countries) also explains the reason for the acceptance of international standards adoption in Indonesia. The legal context identifies stakeholder acceptance of accounting standards in Indonesia through awareness of government regulation in supporting accounting standards development.

The types of legitimacy are dynamics between one type from another in constructing legitimacy due to the historical context of standards-setting process in Indonesia.

6.2.1. Translation and convergence of international standards

This section explains the perception of translating international standards of constructing legitimacy of accounting standards-setting process in Indonesia. This translation is divided into two main reasons. The first is acceptance due to US GAAP translation and followed by IAS standards translation. These two sources were the main source of developing PAI (Indonesia Accounting Principle) and latterly known as *PSAK*.

6.2.1.1. Translating US, GAAP and IAS standards

Indonesia began to develop its own accounting standards during the 1970s. The development of accounting standards in Indonesia was mainly translating foreign accounting standards, such as US GAAP and IAS. Interestingly, the reasons for the early development of accounting standards are described through government perspectives, detailed below, as an action to stimulate economic development through capital market:

> "The early 1970s was the beginning of the industrial period in Indonesia. The government began to stimulate economic development and the existence business activities. Economic relations with other countries were getting better. The

establishment of the capital market was also identified as one of the reasons that the economy of Indonesia is getting modern and better. Since Indonesia was trying to develop capital market, in order to regulate the capital market, it is important to provide the infrastructure which is accounting standards." (G.9.)

This description explains the government's and regulators' viewpoints regarding the establishment of capital market in Indonesia and its relationship with the foundation of accounting standards. Capital market is a key infrastructure today which is applied in the modern world to stimulate economic development in Indonesia and elsewhere. The government is aware that it is essential that capital market be regulated. In the US, for instance, Levitt (1998) stated the role of capital market regulator (SEC) to be protecting investors, thus accounting standards have become a key aspect for providing this protection. Similarly, in Indonesia, according to the abovementioned regulator, accounting standards in Indonesia are part of capital market infrastructure. Since the characteristic of capital market is to attract investors, capital market should provide accounting standards to protect the investor. The awareness of accounting as infrastructure presents the understanding that accounting standards have been labelled as the lingua franca of business i.e. the use of proper and correct language to provide and deliver correct information of business activities. Therefore, accounting standards helps companies and regulators to maintain accountability of business performance - the recognition of accounting standards in capital market thus depict cognitive (taken-for-granted legitimacy.

Government support for using accounting standards as a language of business as well as the advantage of accounting standards to economic development are both characterised as consequential legitimacy. Consequential legitimacy exists due to government decisions to establish capital markets and utilise accounting standards as a tool for presenting reliable information. Accordingly, accounting standards work as language of financial information between companies, investors and stakeholders for future decision making.

In addition, legitimacy in accounting standards is evaluated through awareness that accounting standards provide clarity and safety:

> "Moreover, why do the industries accept the standard? It because the standard *guarantees them safety or protection* which means *a clarity of all measurements related to their business"* (G.1)

The statement above presents consequential legitimacy through the statement "safety option or protection towards business institutions". This consequential legitimacy characteristic rests on evaluation based on output and consequences (Larson, 2002). Accordingly, consequence also relates to the sense of satisfaction in the standards-setting process, which can provide clarity and a clear measurement of business transactions. Similarly, Durocher et al. (2007) described that, through consequential legitimacy, the objective of Canadian accounting standards-setting objective is to protect investors through public involvement in the standards-setting process.

The translation of international standards into Indonesia's accounting standards first started after US GAAP became the most prominent benchmark for Indonesia Accounting Principle (PAI). Accordingly, the existence of US GAAP as the main source of benchmarking and translation was due to academics' role in translating the accounting standards from US GAAP into PAI. One interviewee described that academics were essential actors in the early translation period of US GAAP:

> "[…] along with the changing of new order government and the increasing of investment as well as a better relationship with the United States of America, many people were studying in America including accountants, so this accounted for its effect on our accounting standard." (AC.6)

Besides the role of academics, according to AC.6, the reason for following US GAAP was due to US FASB as standards setter, which was also identified as producing strong accounting standards:

> "America (US) had a strong accounting standards indeed." (AC.6)

In addition, the reason for following the US GAAP is not only related to its strong product and the role of Indonesian actors; it is also related to its FASB infrastructure and professional competence:

> "through its development process which is composed of independent institutions, namely the Financial Accounting Standard Board (FASB), they are professional, independent and full-time working. Even it is so advantageous, so systematic that can be used for our knowledge betterment." (AC.6)

In the case of Indonesia, US GAAP became a prominent benchmark for accounting standards development. Besides the recognition of FASB infrastructure through the position as standards setter, the US GAAP also became the role model for accounting standards development. Cognitively, FASB was also considered as an independent and professional institution. The reason for recognising FASB as a professional and independent caused taken-for-granted recognition by Indonesian actors. Thus, the reasons for accepting PSAK were due to recognition of FASB infrastructure which demonstrates taken-for-granted legitimacy caused by the translation of US GAAP.

In addition, by 1994, the Congress of Accountants in Indonesia decided to use International Accounting Standards as the foundation for accounting standards in Indonesia (Kusuma, 2005, p. 357). Subsequently, the shift from US GAAP into IAS was the reason for the legitimacy of Indonesia's accounting standards. two interviewees, AC.5 and G.9 described the reason behind the shifting towards IAS as:

> "By the development of the economic situation worldwide, Indonesian cooperation is not only with United States but with other counties. Those countries which formerly just harmonised international standards began to converge with international standards. Thus, at one point, Indonesia had to see whether it follows American or international standards, and the choice seemed to be international standards." (AC.5)
>
> "[…] our early accounting standard referred to the United States. Then, from 1994 to1995, there was a project by World Bank and that was for funding any accounting standards development. Moreover, at that time we had another reference besides the United States, and it was the International Accounting Standard (IAS). It was about 80% or 90% we adopted IAS standard into our PSAK in 1994-1995. However, in its development, our PSAK was stagnant, while IAS had considerable development. Moreover, we had a gap between PSAK and IAS." (G.9)

According to the description above by AC.5 and G.9, the cooperation of Indonesia is not only with the US but also with other countries including international institutions such as the World Bank. Looking at G.9's description that states that Indonesia received funds from international organisations in order to develop its accounting standards, there were opportunities for Indonesia to make its capital market more accountable. Congruently, this provides an incentive for Indonesia to increase the transparency and accountability of financial reporting of business institution of capital market. In other words, Indonesia required appropriate accounting standards that could facilitate the development of capital markets and accommodate the emergence of globalisation.

The decision to shift from US GAAP into IAS is also caused by moral evaluation. Indonesia should decide whether to follow American or international standards through International Accounting Standards (IAS). Accordingly, Indonesia would rather choose international standards represented by IAS rather than US GAAP due to consequential reason. Thus, this logic presents consequential legitimacy due to the future benefit for society (accountablity and transparency) if the accounting standards changed from US GAAP into IAS.

However, government and public sectors in Indonesia tend to follow accounting standards due to the degree of similarity between PSAK and IAS, as is explained by AC.4 below:

> "At that moment we were just more about translating, and they might trust us as we did not make any considerable changes. We more referred to US GAAP and IAS. The audit companies who were suggesting an accounting topic, so they already knew the accounting standards from US GAAP and IAS comprehensively. They found that our standards are identical with those from US GAAP or IAS, so they simply accepted it. There was not much change, but few translations." (AC.4)

As is described by AC.4, the acceptance of PSAK is due to translation of international standards. Essentially, the degree of acceptance by audit companies is caused by the understanding of the translation procedures by DSAK. In addition, the understanding there are no significant changes and the similarity between PSAK and international standards both present consequential legitimacy.

The next section presents legitimacy due to IFRS convergence in Indonesia.

6.2.1.2. IFRS convergence

In 2008, Indonesia announced that PSAK will convergence with IFRS standards. According to the government and regulators below (G.9 and G.4), the concept of convergence of PSAK towards IFRS is a gradual process of alignment of PSAK standards with IFRS ones.

"Then, at the end of 2008, Institute of Indonesian Accountant or IAI declared that our accounting standard started to refer to IFRS, and we called the process as convergence process, and we would do it gradually" (G.9)

"For the conventional, its process refers to all IFRS standards. So, it gradually follows it, yet still, we are not as up-to-date as IFRS." (G.4)

Accordingly, the gradual process of convergence creates a gap of years between PSAK and IFRS. This gap is explained by G.9:

"It began in 2009, we had a standard that contained IFRS standards, and it continued until 2012. Our target was to have our accounting standards that referred to IFRS on 1 January 2012. This is the first phase of convergence, and we had a three years gap. Therefore, our PSAK that applied on 1 January 2012 was equal to IFRS standard on 1 January 2009, and we referred to the IFRS effective date. The second phase was in 2015 up to now, and we reduced the gap from three to one." (G.9)

The convergence of IFRS in Indonesia is based on the years-gap between PSAK and IFRS standards. The objective of the years-gap and minimalizing the years-gap in IFRS adoption presents a commitment to align and minimise the difference between PSAK and IFRS.

The convergence of PSAK to IFRS is also explained by some academics. AC.8 and AC.6 describe the convergence as a process of adopting IFRS standards. However, the convergence is equal to partial adoption of IFRS.

"if we fully adopt IFRS that means we have to follow each phase of processing the standards. Starting with all things before the standard to be published by IFRS, and once it is published into a standard, it becomes our standard coincidently, and the rest is translating phase. It seems like we are doing partial adoption here, but we are omitting the differences between IFRS and statement of financial accounting standard or PSAK." (AC.8)

"I might say that the accounting standards-setting are unique, which means our position is a country adopting International Financial Reporting Standards (IFRS), yet we have not fully adopted it till now, we are just doing a partial adoption […] it seems for Indonesia to choose the partial adoption instead, and due to the international context, we are trying to convert with IFRS. However, what I think should correctly be said is that we are just adopting IFRS partly." (AC.6)

The description of AC.6 and AC.8 discloses the position that Indonesia's accounting standards are unique due to the distinction between full- and partial-adoption (convergence). The difference between full- and partial-adoption is naturally in the context of the commitment to adopt IFRS standards. Full-adoption is the commitment to adopt IFRS directly without any adjustments. Instead of fully adopting IFRS standards, DSAK chooses to make adjustments and proportionally align its standards with IFRS.

While the previous statements explained the differences between convergence and full adoption, the following description describes the due process of converging PSAK standards. According to audit institutions and academics, the due process of convergence of PSAK towards IFRS is:

> "the idea is that if we do not find anything that should be changed, we will not change it. So, our standards-setting process is according to the process that is in IFRS, in international level." (AU.1)

> "described that standards setter follows the standard developed by the IASB, so, whatever existed in the IASB program, they (the standards setter) will take it and make it into a program to develop accounting standards in Indonesia." (AC.8)

According to AU.1 and AC.8, the convergence of PSAK standards with IFRS is basically by conducting and applying the equal international practices of IFRS. Although DSAK committing to convergence is, in other words, conducting partial adoption, in reality DSAK tends not to change anything (IFRS standards) if they do not discover anything that needs to be changed. The acceptance of international standards without any adjustments is identified as the willingness of the local standard setter to adopt IFRS, thus presents taken-for-granted legitimacy.

Understandably, the willingness to follow IASB is supported by AC.6:

> "This process does not mean that we start it from the bottom, as another standard setter such as International Accounting Standards Board (IASB) or FASB (Financial Accounting Standards Board) which have started the process with a project discussion paper and so on. All due process they have run, started with initial discussion until draft exposure, research activity, etc. The due process does,

of course, take a longer time than ours because what has happened here is that taking all that available." (AC.6.)

The development of PSAK standards (equal to IFRS standards) is related to the translation of IFRS standards. Accordingly, the due process of PSAK-IFRS standards is shorter compared to IASB and FASB due process, upon evaluation. This is because PSAK-IFRS development is mainly to translate IFRS.

Although DSAK decided to translate IFRS standards, comments and adjustments of the standards development already existed in the due process and procedure. According to AC.6 and G.2:

> "The process was when there was a new accounting standard issued by IFRS, we reviewed it and saw the possibility of it being applied in Indonesia. Moreover, we always had a gap as we never deviated with common international practices or international standards. Then we had an internal review in IAI, we discussed with them and also with DPN on whether or not the standard can be applied here. Then we started translating it with some adjustments that were not significant, but just adjusting some its terms with ours. Moreover, after that process, we held a public hearing to the stakeholders." (G.2)

> "Commonly, accounting standards that want to converge are chosen from IFRS standards; then, the standard is discussed and ended by concluding what is appropriate. It is important to criticise to be eligible in Indonesia" (AC.6)

The process of selecting new standards is described by G.2 and AC.6 as selecting the standards that were issued by IASB. DSAK then reviews the standard to justify the possibility of it being applied in Indonesia.

The moral reasons for reviewing IFRS in local contexts also appeared to be the underlying reasons of convergence i.e. to ensure economic implications towards IFRS standards adoption. Hence, DSAK preferred to evaluate the IFRS standards by predicting future economic consequences, as is mentioned here:

> "In term[s] of adoption, I think Indonesia [is] still not brave enough to adopt international standards, as I previously said about the commitment to adopt in 2012 that should be postponed to 2015. The complexity of full adoption is more than that of partial adoption. However, its process is also not that easy, as it is not only about translating but also criticising whether or not the standards result in

> positive or negative consequences for the economy. If the standards are possibly creating negative consequences, there are going to be a political process in the development." (AC.6)

Essentially, the aims of partial adoption of IFRS are to ensure national economic stability and to gain international recognition that Indonesia is committed towards IFRS. DSAK should accommodate the stakeholder's needs and interests of accounting standards development.

Understandably, the commitment of PSAK for converging with IFRS shows that the businesses world needs better accounting standards to reduce the differences between countries. The actions of DSAK to converge and restrict or omit differences can be categorised as consequential legitimacy due to minimised differences between PSAK and IFRS. Accordingly, the taken-for-granted legitimacy argues that if there is no difference in perspective between IFRS and PSAK, then the standards will not be changed.

This section also describes the legitimacy of accounting standards-setting process through the historical reasons for accounting standards development. The historical reasons began with the initial need for accounting standards development and an institution to develop accounting standards. Since PSAK standards are mainly translated from international standards, the research identifies the dynamics of legitimacy reasons between translation of international standards (US GAAP and IAS) and the period of IFRS convergence.

The next section, looking at historical context, will explain the political reasons for adopting IFRS standards due to membership of G20 countries and International Federation of Accountants (IFAC).

6.2.2. Political influence of G20 and IFAC

The study finds that DSAK's commitment to converge the PSAK standards with IFRS standards was politically motivated by Indonesia's membership in the G20 and by IAI as a member of International Federation of Accountants (IFAC).

In November 2008, the US Office of the Press Secretary issued the Declaration of the Summit on the Financial Markets and the World Economy in Washington DC. The declaration's objective was to address the severe challenge to the world's economy and financial market (Office of the Press Secretary, 2008). The meeting was attended by G20 leaders with a view to encourage members to work together. The objective of this meeting was to restore and reform global financial systems following the financial crisis. One of the vital issues of this meeting was a commitment to strengthen transparency and accountability by adopting medium-term actions and creating single high-quality global accounting standards (ibid).

The understanding that Indonesia is a member of the G20 and is therefore influenced by other G20 countries to commit to the International Financial Reporting Standards (IFRS) is explained by the interviewees:

> "The agreement of G20 countries has a clause that accounting standards must converge with IFRS. It is a necessity even for other countries such as Australia which has fully adopted IFRS standards, and the US, which also refers to the IFRS. That is why we have to perceive the same business terminology which allows foreign investors to better understand our financial report." (G.4)

> "It means the government are interested in making the national economy more transparent, including when the government invites foreign investors. They have to show transparency in financial reporting by all companies in Indonesia, since inviting investors can directly invest in real sectors or finance sectors through the capital market. Moreover, once it goes through the capital market, it must be transparent, urged by G20 and the profession by adopting the international standard." (AC.5)

> "I believe that the government needs IAI as their assistant to implement the government's vision. Its success also depends on the response and collaborative work from IAI. In the case of general (conventional) PSAK, after the government had signed it as part G20, it made the government commit to using the standards of IFRS. Thus, they ordered IAI to converge with our standards and to make it comply with IFRS." (SAS.5)

This shows that the interviewees were aware and understood the relationship between G20 countries and their commitment towards global accounting standards, thus affecting the development of PSAK in Indonesia. Indonesia's move to adopt international standards reflects the declaration of the G20 to work together to create a single global accounting standard. Increasing the transparency of financial reporting became a commitment from the G20 to ensure the comparability of financial statements between the member states. The increase of comparability between member countries will ensure the clarity of decision-making systems based on financial reporting of one country to another. Thus, taken-for-granted legitimacy is due to the G20's commitment. In addition, consequential legitimacy is present due to the motivation to follow the G20's decision regarding transparency and accountability for the future benefit of society.

Accordingly, the relations between the Government of Indonesia and IAI are well-developed. Both IAI and the government have a mutual interest in the development of accounting standards. Since the government's objective is to maintain economic stability, this perspective could be identified as a consequential legitimacy. The establishment of international standards has increased the transparency and attracted international investors to Indonesia. As such, Indonesia's efforts to converge its standards with international standards and follow G20's commitment were mainly motivated by increasing transparency for the benefit of society. Interestingly, as the holder of authority and political mandate, the government of Indonesia requested IAI as an authorised institution (from the perspective of the government) to assist in the implementation of IFRS (in the country). The government requests or orders IAI to converge the standards with IFRS, which indicates the government's recognition of the role of IAI as a legitimate institution in the field of accounting standards development. Accordingly, the government recognises the role of IAI and taken-for-granted accepts IAI decision to converge PSAK with IFRS.

As described by G.4, in addition to the G20's commitment to create global accounting standards, the motivation for adopting IFRS was also suggested by a professional institution, namely IFAC. The following quotes identify the role of IFAC towards PSAK to convergence with IFRS in Indonesia:

> "Indonesia is one of the G20 countries, so once the government invites the investor to invest in this country, there will be a demand from the international world that Indonesia must be transparent and show that it has adopted international standards. Moreover, from the professional perspectives, the Indonesian Institute of Chartered Accountant of IAI has been part of International Federation of Accountants (IFAC) and its commitment to urge the use of international standard by most of its members. Alternatively, each member of IFAC is asked to implement and commit to the international standard" (AC.5)

"I think we are following the global trend, and as we have a world-level organisation that is International Federation of Accountants (IFAC), I think the standard board or IAI feel like they will be more appreciated or acceptable if they use an international standard, instead of the American standard. Once I discussed with a friend, and he was the former standard board who had worked longer than me there, that discussion led me to conceive that all those cases were due to acceptability. If the recent world trend is to follow IFRS standards, and we keep not to follow it, we will leave behind and our comparability to other countries will be more difficult." (SAS.3)

The explanations from AC.5 and SAS.3 describe the role of IFAC in endorsing the adoption of IFRS globally including in Indonesia. Implementing international accounting standards accounts for two out of four of IFAC's missions i.e. it "serves the public interest and strengthens the accountancy profession" (Accountants, 2016). The mission of IFAC is to meet/fulfil the public interest with the adoption of IFRS as well as to strengthen the accounting profession. Thus, steps to fulfil this mission should be taken. IFAC clearly advocates international accounting standards as its mission includes "supporting the development of high-quality of international standards" and "promoting the adoption and implementation of these standards" (ibid). Supporting international standards also means that the organisation is involved in developing international accounting standards as well as promoting the adoption of international standards. The support and promotion from IFAC could be an indication that there has been a rise in the adoption of IFRS. Accordingly, the members of IFAC are accounting professions across the globe. Hence, they would be less likely to refuse IFAC's mission to support and promote the use of international standards. The acceptance of IFAC from its followers is a symbol to maintain the issue and organisation existence.

For IAI, the willingness to follow IFAC's mission in supporting international standards indicates the legitimate perceptions of the international standards-setting process. Furthermore, being able to understand how to follow international standards has become a commitment for IAI as a member of IFAC. Subsequently, the acceptance of the IFRS is proof of consequential legitimacy. Actions to support international standards are considered as a means to protect the public interest. Acceptance through consequential legitimacy also coexists with taken-for-granted legitimacy due to acceptance of IFAC's mission to support the IFRS. Hence, in this context, moral legitimacy and taken-for-the-granted perception leads to the willingness and commitment of the standard setter (DSAK) to follow the IFRS. Taken-for-granted acceptance from IAI to follow IFAC is similarly reflected in Durocher et al. (2007). Durocher et al. (2007) outline how the perceptions of taken-for-granted acceptance are also aligned with a source of power, such as Hardy's (1994) systemic power.[48]

Accounting standards in Indonesia have been developed by DSAK. However, DSAK itself is structurally under the IAI. Essentially, the decision to converge PSAK with IFRS can be identified as political cooperation between G20 countries and IFAC members.

The next section will explain the legal perspectives in supporting the standards-setting process by DSAK and IAI.

6.2.3. Perceptions of legal support in accounting standards development

This research also identifies that the legal context also perceived as a reason for accepting accounting standards-setting in Indonesia. Preparers, academics, governments and regulators stated that there are two regulations that regulate and help IAI to be a legitimate institution in the eyes of its followers.

> "[…] we can find such regulation in Limited Liability Company Act, in which it is stated that every company must report their financial statements based on financial accounting standards published and developed by profession organisation admitted by the government (IAI). In fact, this regulation does not refer to DSAK (Financial Accounting Standards Board), it refers to financial accounting standards. We have another Act that states about financial accounting standards. It is in Capital Market Act that states that *emiten* (public companies) must report their financial reporting based on a standard established by IAI." (P.1)

> "It is due to the Act (*undang-undang*) for the company (limited liability company) number 40, and also the act for capital market number 8. Both acts state that every financial reporting must meet the requirements of a financial accounting standard. However, the term "financial accounting standards" here does not explicitly refer to accounting standards that are established by IAI (for Limited Liability Company Act). Except for Act Number 8 (Capital Market Act),, it states that such

[48] Systemic power is characterised by "the unconscious acceptance of the values, traditions, culture and structures of a given institution or society" (Hardy, 1994, p. 230, cited in Durocher, 2007, p.36).

accounting standard is set or published by an organisation of profession admitted by the government (refers towards IAI)." (AC.2)

"Then, by law, it is stated clearly in Capital Market Act that all financial reporting established by public listed companies, must be based on Indonesian accounting standards. Moreover, we explain that the standards are published or legalised by IAI. By law, IAI has its authority to set financial accounting standards." (G.9)

These explanations mention the importance of two regulations – the Capital Market Act (Capital Market Act Number 8, 1995) and the Limited Liability Act (Limited Liability Company Act Number 40, 2007) – in enhancing the authority of IAI as a legitimate institution. The explanations by P.1, G.9 and AC.2 above describe the Capital Market Act and the Limited Liability Act as having implications towards public companies, mainly in the way in which public companies report their financial statements. The regulations also show intention, authority and power from the government towards relevant parties in the development of PSAK. Due to these regulations, public companies do not have a choice in whether to refuse or reject the adoption of PSAK in the capital market.

IAI is a legitimate institution due to these two primary regulations (Capital Market Act Number 8, 1995 and Limited Liability Act Number 40, 2007). According to the interviewees, both of the Acts asserted the importance of financial reporting following particular accounting standards. However, the Capital Market Act and Limited Liability Company Act do not state that the accounting standards board is an institution of authority developing accounting standards; they instead refers to it as accounting standards by the Indonesian Institute of Chartered Accountants. Both regulations are essential to ensure the existence of Indonesian accounting standards under IAI. The government's legal support is a crucial factor for IAI to be perceived as a legitimate institution.

Accounting standards development has tended to flourish because of the government's support for regulating capital markets according to their values and preferences. The Capital Market Act states that all public companies should refer their financial statements to the Indonesian accounting standards. This regulation clearly explains the role of IAI as a legitimate actor. Interestingly, the interviewee also understood that IAI is the sole authority of developing, publishing or legalising accounting standards. This confirms that cognitive acceptance of IAI as a legitimate actor incorporates taken-for-granted legitimacy.

The role of accounting standards and its followers appears in the commitment between regulators of business institutions with DSAK and IAI as standards setters. Government institutions and regulators are key allies in supporting the development of accounting standards. Regulators focus on ensuring the successful implementation of standards in business institutions. The commitment and flexible discussions between regulators and standards setters are some of the many aspects of procedural legitimacy which ensure the acceptance of stakeholders.

The Indonesian accounting standards board also considers that DSAK/DSAS has less legal standing (specific Act support DSAK or DSAS). This lack of legal support is due to the regulation that legalises the role of IAI, rather than DSAK or DSAS. Below are the statements from the audit institution, the preparer of DSAK's legal standing and the acceptance of PSAK:

> "I also said that DSAK does not have its strong legal standing as their position is not stated explicitly by the law, and the only authorised institution is IAI. So, there is no other competing institution to run such a function, and that is one factor for their acceptance." (AU.1)

> "Actually, there is no obligation for us to use the standards from IAI or IFRS or IASB. However, as the regulator instructs us to follow to IAI, so we will do what they asked. So, it is due to the regulator, and if it asks us to follow IFRS, we will follow them." (P.1)

AU.1 views DSAK/DSAS as institutions that develop accounting standards. Interestingly, DSAK/DSAS are subordinates of IAI. Additionally, P.1 explains that the regulation was the primary factor for stakeholders following accounting standards. Regardless of the government requests, stakeholders have an obligation to follow these government instructions.

> "the legitimation only comes from it (Limited Liability Company Act and Capital Market Act). If we want to fix or correct our financial report order, we need a specific financial reporting act as exists in some developed countries. It is called a financial reporting act, and confers legitimacy just like in America that with the so-called FASB. Moreover, how is it funded? Who chooses the member of FASB which is mandated to set financial accounting standard in the US? Such model applies to financial reporting act in Indonesia. However, it had been running for

years before I joined DSAK, and it seemed that it was not necessary to enter *prolegnas* (*program legislasi nasional*/national program of legislation), so it has not been happening." (AU.1)

One of the most interesting descriptions by the interviewees of the structure and status of the accounting standards board was the lack of available regulations related to financial reporting. Since independence, the government of Indonesia seems to have paid little attention to the Financial Reporting Act. It is likely that the government considers the Limited Liability Act and Capital Market Act as already representing the regulatory system for financial reporting. The fact that Indonesia does not have any specific regulation on financial reporting was also identified by the AU.1 as a legal matter. The legal matter has been caused by the unclear regulatory system for the accounting standards-setting process. None of the regulations have mentioned the accounting standards boards (DSAK and DSAS) as legitimate institutions. Moreover, until recently, no financial reporting regulations existed in Indonesia.

Leaving aside the legal existence question, the members of DSAK are only part-timer staff, in comparison to standards setters in other countries who are full-time members of the accounting standards board.

"This law refers to IAI, and it does not refer to DSAK. However, in IAI's organisational rules, it is indicated that accounting standard setting process is entrusted to DSAK, so if it is compared to other countries, the thing may be somewhat different, if it is a legal legitimation matter. Since we do not have laws for financial reporting, such a function becomes part of IAI's rules, and the two laws above can be regarded as IAI, and IAI entrusts this duty to DSAK. Moreover, we know that DSAK is only a part-time (job) compare to other countries such department is a full-time (job)." (AU.1)

The employment status is one of issues related to structure of standard boards in Indonesia. According to the AU.1, the importance of the full-time compares to the current status of DSAK (and DSAS) as part-time employment. The standards board can adopt an international model such as the US FASB structural model. Accordingly, in the United States, all members of the FASB institution are full-time workers (Zeff, 1989). According to AU.1, adopting other country's structural position of standards boards can also help to increase legitimate perspectives in the accounting standards-setting, such as creating awareness among stakeholders. The U.S model of standards boards is applicable to Indonesia if there is a serious commitment from the government.

In the meantime, there are no regulations on financial reporting, this vacuum has created structural problems in terms of the effectiveness of DSAK/DSAS. However, despite a lack of proper regulation, the perception of IAI as a legitimate institution is embedded in social perception. Therefore, with or without the Financial Reporting Act, the role of IAI as a legitimate institution remains the same. Thus, this reason shows taken-for-granted legitimacy for IAI. The cognitive reasons why IAI is accepted by other institutions will be explained in the last final section, and pertains to biases embedded in professional considerations and religious beliefs in standards-setting process.

The explanation regarding the Limited Liability Company Act and Capital Market Act depicts legitimacy as due to the legal context. The interviewees understood that through government regulations, accounting standards-setting have become more legitimised. Accordingly, there is no other option for public and private companies to apply other accounting standards apart from the PSAK standard by DSAK/DSAS IAI. Since regulator guidelines regulate all entities in the capital market, the industry must adhere to all of the instructions. This objective also indicates the government's efforts to standardise financial reporting.

Apart from the Capital Market Act and Limited Liability Company Act, *BAPEPAM* as regulator of capital markets has also issued regulations to regulate capital markets, namely *BAPEPAM* VIII.G.7. The role of *BAPEPAM* VIII.G.7 in supporting other regulations is acknowledged by P.1 as follows:

> "There are some regulations, such as *BAPEPAM* regulation number VIII.G.7 which states that every transaction must refer to PSAK developed by IAI. We all must follow this guideline." (P.1)

The acceptance of the industry (Preparer) to adopt accounting standards is primarily due to the government's endorsement of accounting standards by the IAI. There are several reasons why the Indonesian government preferred IAI as a principal actor in standards-setting. One of the main reasons, as was discussed in the previous section, is that the government has a tendency to follow common practices in financial reporting by recognising the role of accounting profession. Subsequently, the recognition of IAI includes the enactment of government regulations, specifically the regulation which stressed the important role of IAI in the development of accounting standards.

Most of the acts such as the capital market, limited liability and *BAPEPAM* acts are essential in understanding the government's agreement to legalise IAI as a key actor of accounting standards development. The government's recognition also indicates the willingness from the government to acknowledge and justify the most capable and trustworthy profession to develop accounting standards by strengthening and legitimising IAI's position.

The willingness of the government to legitimate IAI as an institution for accounting standards development can be traced back decades to Indonesia's initial steps to develop accounting standards and laws related to the accounting profession. Therefore, the cognitive reasons from the government, to point out that financial accounting standards should be based on professional organisation, served to legitimise IAI as the only capable and recognised institution in accounting standards development. Below is the explanation from AU.1 relates to this context:

> "Therefore, it seems that the stakeholders do not have another option. From the side of the preparer, as they also have to refer their financial reporting to the financial accounting standard, and the only institution authorised to set it is IAI or DSAK; inevitably they have to follow this institution." (AU.1)

Hence, for preparers or industries that are preparing financial statements they must inevitably follow all the instructions and regulations from the standards boards. In addition, AC.2 described how no one has attempted to imitate IAI's so far in terms of the standards-setting process:

> "Moreover, as long as I know, so far there are no single institution setting and publishing accounting standards besides Indonesia Institute of Chartered Accountant (IAI) as it is a costly exercise." (AC.2)

Inevitably, the stakeholders' recognition of IAI represent cognitively taken-for-granted reason of accountants as professional organisations. The process for developing standards is considered a costly activity which is difficult to replicate without any expertise, structure and legal support behind it.

From a legal context, IAI is the only actor in developing accounting standards. Regulations are pivotal in supporting IAI as a legitimate organisation. The acceptance of accounting standards-setting is linked to the acceptance of regulation in Indonesia. Accordingly, the regulations clearly state the need for accounting standards and the role of professional institutions in the development of accounting standards. Thus, the legal context of government support for accounting standards development shows taken-for-granted legitimacy.

Following the legal context supporting the legitimate status of IAI, the next section describes due process and procedure as secondary themes of legitimacy dynamics accounting standards-setting process in Indonesia.

6.3. Due process and procedure

This research identifies due process and procedure as one of the main factor of the legitimacy of the standards-setting process in Indonesia. Due process and procedure consist of moral evaluation; moral evaluation also applies to following the international standards due process.

6.3.1. Moral evaluations of due process

Despite historical reasons based on political and legal contexts which have initially caused legitimate perceptions of accounting standards-setting, this research has also identified due process and procedure as the cause of legitimate perception of the standards-setting process. The acceptance exists due to the moral context of due process and procedure in causing legitimate perception of accounting standards-setting process. Accordingly, the moral evaluation in this context is described through a normative perspective such as the following:

> "the process of accounting standard setting in Indonesia that I know so far, it *has a standard goal, standard agenda* to be scheduled whether it is requested by the government or Indonesia Institute of Chartered Accountant (IAI). Also, if IAI has decided on what standard should be set, they will make or arrange the draft, and then request the public for their suggestion. At that time of suggestion, there will be coming out with an exposure draft." (SAS.5)

This description by SAS.5 mentions the due process of standards-setting as a process of developing accounting standards that contain a standards goal. In addition, the statements of the standards agenda illustrates the acknowledgement of procedural motives and the steps of the due process.

Contextually, the awareness of due process and procedure is also exemplified by government and regulators through reason, namely “fine”:

> “the process of developing accounting standard in Indonesia has been *fine*. Why is called as fine? The process of formulating the standards and the rulemaking process has been passed in adequate time, so that the public hearing process could be executed maximally and the process for asking opinions reach its substantial parts so that it fits the real condition” (G.6)

The explanation of accounting standards in Indonesia as “fine” explains the role of a procedural process in developing accounting standards. The recognition of procedural context emphasised the importance of time management and the allocation of a public hearing during the development of accounting standards. Thus, the word “fine” presents procedural legitimacy.

In addition, the accounting standards due process was described through constructive and positive reasons such as “very good”. It was also evaluated with statements such as “very qualified”, “takes a longer time to complete”, “conforms to governance” and “follows the right procedure of producing accounting standards”:

> “I think the process to develop accounting standards is *very good*, then, it may be said it has followed what regarded as “due process”. Moreover, that we develop it in several stages, for example; if a new standard is going to be issued, there must be a team from standard board working for it, and after that, the process is issuing an exposure draft. Right after that, the standard board is going to discuss it by considering all suggestions and criticisms, after the discussion and the board believes that the standard is being considered as acceptable; then the new standard is formed. Due to all those, I think that our process is *very qualified*, which means that the board does not just produce a direct-usable standard, but they also employ a due process that relatively *takes a long time to complete*. Even for such a technical bulletin level, they do apply that process. Therefore, I think that our standard setting both for conventional and sharia accounting is *magnificent*.” (SAS.3)

> “Generally, accounting is completed through a process that *conforms to governance* and *proper standard*, or that is to say that it *follows the right procedure* that is required by institutions of accounting standards. For example,

they arrange a concept and then form a technical team by inviting professionals. Then they make a draft which is to be discussed in the standards board, then it is given to the industry and regulator for suggestions. After that, both industry and regulator are invited to a public exposure in which any extreme suggestions must be recorded, and after that, all the result is discussed in technical team and standard board, and the accounting standard is completed." (P.3)

"Involving the industries was necessary as they are the user in where the standard would be implemented. So, if the standard only been set by the regulator or others from the National Sharia Board and that is DSN-MUI, the standard might not be applicable. Which mean that it required the suggestion of how practices can best fit between the regulator and the user or practitioner. So far, I see that accounting standard setting, especially sharia accounting in Indonesia has *been running quite appropriately*." (P.2)

The positive impression by the interviewees quoted above evaluates due process positively. The descriptions from SAS.3, P.2 and P.3 (Sharia Accounting Scholar and Preparer) all recognised due evaluation processes as procedural motives. Therefore, the DSAK/DSAS due process was accepted because of the procedural perspective of due process. The time taken to develop accounting standards was also evaluated as a reason for accepting due process. Upon evaluation, accounting standards development took up an extended period of time in the due process. The recognition of time-related reason towards due process supports procedural legitimacy. In addition, the awareness of the involvement of industries in developing sharia accounting standards represents procedural legitimacy.

In addition, the reasons for acceptance was also described as "run very well" and "done precisely":

"I think that the process *run very well*, as it represents the stakeholders and for its due process that is *done precisely*." (AU.4)

The recognition of public involvement was mentioned by AU.4 by describing the process of developing accounting standards as "run very well" and "done precisely". In the latter description, the interviewee explains the importance of public involvement and the allocation of public involvement in standards-setting.

According to the academics quoted below, stakeholders accept PSAK/PSAKS standards since the process of PSAK/PSAKS development represents stakeholders and public involvement. The description of the process is explained below as “proper due process” and “quite good”:

> “What I have known and followed in a public hearing, the process *was quite good*, which means it was normatively good in the context that accounting standard in Indonesia was through a process or a *proper due process*. Therefore, sometimes we found a need or a situation that required an accounting standard and then this issue was raised by Indonesian Institute of Chartered Accountant or IAI or industries. After that, they formed a working group and academic transcript for making a draft, and when the draft was agreed by national council or DPN, they would endorse it. If the draft is about financial accounting standard, they would encourage it to be developed and later when it is completed IAI would ask for suggestions from interested parties or functionaries, whether from the government or industries or academics or even from standard setters or initiating parties. Through a public hearing which was very constructive, each audience or whoever willing to come could extend his ideas, or his suggestions for changes, and his objections.” (AC.1)

Compiled from previous descriptions of public engagement in standards-setting, the interviewees understand very well the importance of public involvement in the standards-setting process, which is identified as procedural legitimacy. The interviewees (Governments and Regulators, Sharia Accounting Scholars, Preparers, Academics, and Audit Institutions) recognised that through due process procedures, accounting standards becomes interesting with public involvement. Public involvement in accounting standards has led to increasing acceptance of accounting standards. In the PSAK, due process involves procedural steps undertaken for developing accounting standards. However, an interesting point is that actors can engage in the development of accounting standards through suggestions. It is possible for them to contribute to standards-setting, and it is recognised that the due process of standards-setting in Indonesia allows for the allocation of public involvement in the process of developing accounting standards. Thus, acceptance due to positive evaluation of public involvement is characterised as procedural legitimacy.

Contextually, Beisheim and Dingwerth (2008) identified key elements of the procedural legitimacy of transnational policy process associated with social mechanisms such as inclusivism, transparency, accountability and deliberation. Inclusiveness, fairness and representativeness are related to participation; deliberation is about social learning and persuasion; and transparency and accountability refer to social control (Beisheim and Dingwerth, 2008).

Besides public involvement, acceptance also appears in the context of suggestions about the standards-setting process. It shows a reliance by stakeholders on the accounting standards due process:

> "They did not explicitly say that they do not believe. *If there were no complaints, but suggestions, it indicates that they have believed*. Moreover, this is what has been going on now, no complaints at all (AC.4)

The willingness of lobbying accounting standards development is explained below by audit institutions (AU.3):

> "First, they know business issues are related to transaction or product that the standard is being proposed for. If they know about how the business practices are, they also interest in sharing the practice. Besides that, if the standard might have possibilities to differ with existing practices, they are interest in seeing how far the standard varies or if they feel comfortable with existed practices, they will make a considerable effort to explain that the existing practice in particular accounting approaches before the standard being set, and they are comfortable with it." (AU.3)

Lobbying of accounting standards-setting represents an act of acceptance by stakeholders. The reasons to engage in lobbying are that lobbying the industries may potentially gain insights into the effects of the proposed accounting standards.

In addition to proper due process characteristics, the reasons for industries to accept the standards are essentially caused by the safety option or guarantee protection in accounting standards:

> "I *think it is due to the process*. Firstly, there is a draft, and following the draft is discussed by the Financial Accounting Standards Board, after that they hold a public hearing and finally the standard is approved by IAI." (G.1)

The descriptions above identify due process as procedural legitimacy through public participation.

This section presents procedural legitimacy as being present through the evaluation of due process in accounting standards development through normative and positive dictions. Suchman (1995) defines procedural legitimacy as causal reasons rather than outcomes. In order to gain moral legitimacy, organisations can garner moral legitimacy by embracing social accepted techniques and procedures (Suchman, 1995). The evaluation of standards-setting has highlighted the importance of due process. Due process itself is identified as a sequential step for developing accounting standards, and every step needs to be applied by the standard setter in order to develop accounting standards. Thus, this section argues that procedural legitimacy appears as the cause of acceptance in the standards setting process. In addition, the research finds that consequential legitimacy exists due to public protection concerns in accounting standards development.

The next section explains the moral reasons for following international due process as one issue for legitimacy in due process and procedure.

6.3.1.1. Moral evaluation for following international due process

The moral reasons for following international due process and procedures arise when the DSAK/DSAS standards-setting due process is evaluated adopting the international standards-setting due process. Therefore, by following the international accounting standards due process, this indicates the acceptance of the reasons behind accounting standards development.

The quote below explains how DSAK/DSAS follows the international accounting standards due process:

> "Well, principally they set the standard for their position as the executor of the duty given to them. However, when they do their function, they follow the due process which means referring to the international standards and then doing public hearing where the follower can give their suggestion and opinion. (G.3)

According to G.3, the Indonesian government and regulators understand that DSAK and DSAS are the right executors and institutions for developing accounting standards. The awareness of DSAK and DSAS as the right institution for accounting standards development is also explained by the awareness that DSAK and DSAS due process follows international standards-setting due process.

The awareness and recognition that the public hearing in the accounting standards-setting due process in Indonesia is equal to global standards-setting exists both in conventional and sharia accounting standards development:

> "I think the process of developing accounting standard in Indonesia *is equal to other processes* of global accounting standard setting process, in which we can find a due process procedure that must be completed." (AU.3)
>
> "…sharia accounting standards-setting process follows the global accounting standard setting process, such as PSAK 30 that was in public exposure and formerly was PSAK 100, 101, and Murabaha was like that." (SI.2)

According to the audit and sharia institutions (AU.3 and SI.2) above, the recognition of public hearing and exposure in the development of accounting standards reflects the transparency of the standards-setting process and characterised as procedural legitimacy. The interviewees' opinion about following the global standards-setting process is evaluated through the public involvement in the standards-setting process, which represents procedural legitimacy. Accordingly, the acceptance is evaluated through the understanding that PSAK and PSAKS due process follow the international standards-setting due process.

The next chapter discusses legitimacy due to biases embedded in professional considerations and religious beliefs in the accounting standards-setting process in Indonesia.

6.4. Biases embedded in professional considerations and in religious beliefs

The legitimacy of accounting standard setting in Indonesia has been defined through historical, legal and political contexts as well as through due process and procedures. This section explains the role played by accounting profession and religious beliefs in the legitimacy dynamics of the standards-setting process. The relationship between all these factors is dynamic and inter-dependent. There are two types of biases, that is professional considerations and the second is from religious beliefs. The former will be explained in the next section, and the latter will be explained in the section which then follows.

6.4.1. Legitimacy based on professional considerations

Professional context in the development of accounting standards-setting in Indonesia is also identified as the principal reason for legitimising the accounting standards-setting process. Historically, the establishment of accounting standards in Indonesia cannot be separated from the early role of actors and regulations that regulated accountants as professional institution. Rational accountants as a capable institution in Indonesia were in the background chapter with regard to the regulation of the accounting profession. During this time, the accountancy profession or IAI was a highly sought-after occupation required by stakeholders to deliver its professional expertise and help the country's economic growth and accountability. The perception towards accountants was strongly embedded into the social beliefs system and continued to be in later periods. By this time, the work of accountants had already spread and been acknowledged as a professional institution. The recognition of accountants went hand-in-hand with the recognition of IAI as the only recognised accounting profession (recognised by law) in Indonesia.

The process of developing accounting standards has become an interesting issue for IAI because, since its foundation, accounting standards development has been IAI's main point of interest. The interviewees were well aware of IAI's role as an accounting profession, which concerns the structure of accounting standards-setting and is characterised as acceptance in accounting standards development.

This section argues that professional considerations has become the cause of the legitimacy of the accounting standards-setting process in Indonesia. The professional perspective in this context is divided into two main sub-topics: i) legitimacy due to cognitive and evaluation of IAI structure and ii) legitimacy due to the cognitive rationale of the accounting profession. The cognitive infrastructure of IAI is explained in the next section and the logic of the accounting profession is described after that.

6.4.1.1. The evaluation of IAI infrastructure

Structurally speaking, DSAK and DSAS are the only institutions responsible for developing accounting standards. This conclusion is based on the literature review and the previous section which both described the role of regulations in defining and supporting accounting standards development. The recognition of DSAK and DSAS's role in the promulgation of accounting standards was also described by the interviewees though awareness of the position of DSAK and DSAS as a subordinate of IAI.

> "As DSAS is part of IAI that has its authority to set an accounting standard." (G.3)
>
> "DSAK always refers to IAI." (AU.2).

The description above presents the understanding of the DSAK and DSAS position as subordinates of IAI, which is characterised as structural legitimacy. Accordingly, the interviewees (Government Institution and Audit Institution) were well-aware of how IAI was structured as a legitimate institution in the development of accounting standards.

Over time, DSAK and DSAS have become increasingly powerful as legitimate and authorised institutions. Not one single institution has attempted to take legal action against DSAK or DSAS. No other institution problematises the authority of DSAK and DSAS, as is described below by AU.1:

> "[…] there was a legitimacy issue without financial reporting act, but through times and fortunately, *Alhamdulillah* (praise to God) there was not any single class action or any stuff. Since IAI was in its early period, we had set accounting standards in Indonesia […] If we talk about the structural problem, we will find that it is about funding or financial reporting act and consequences. So far who funds us is the IAI." (AU.1)

This explanation presents taken-for-granted legitimacy as being due to a lack of legal problems faced by DSAK. Taken-for-granted reason appears due to trust in IAI as a legitimate institution. In addition, the historical background of IAI as a professional institution also causes the acceptance of the standards setting process. As described earlier, the actions of DSAS and DSAS have historical reasons through the establishment of IAI as the first accounting profession in Indonesia; the development of accounting standards are entrusted to IAI (through law). Thus, the position of DSAK and DSAS as subordinates of the IAI is clearly shown to be the main reason for accepting DSAK and DSAS as legitimate actors in accounting standards development in Indonesia.

According to *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) regarding IAI organisational rules article 23, a member of DSAK and DSAS can be any person who is appointed or represented by government institutions, business associations, non-governmental institutions and/or other relevant institutions. Accordingly, the awareness by the interviewees of this matter is described below:

> "Besides those parties, there is also the regulator, as its system is ex-officio that means whoever has a position in an organisation, he will be assigned by his institution towards IAI. Such OJK is assigned to be part of DSAK. The other party is the academics and now we do not have an expert from the University of Indonesia. Then, the other party in question is the preparer or management accountant, and this party no longer exists. So, if we try to see the case for a second time, is this representation ideal? They want such a complete representation, but it cannot always be fulfilled." (AU.2)

> "People say that as DSAK is a representation of some institutions, so it cannot be an independent department. DSAK's product may be independent, but in terms of appearance, it is always said that as DSAK is not a full-time department, just 'quote and quote' as it consists of delegations of some institutions. DSAK is considered due to its composition as a dependent department (from IAI/subordinate institution); upon this matter, I say that DSAK's capability is limited." (AU.2)

> "in sharia accounting standards board or DSAS there are delegations such as myself from practitioners or banks, then from Sharia National Board or DSN-MUI which represents the fatwa establishment authority, then the regulator from Financial Service Authority or OJK, The Bank of Indonesia, the academics, and from the auditors from a public accountant. All of them sit there together in a forum that is called Sharia Accounting Standards Board." (P.1)

> "DSAK has members from OJK, Bank of Indonesia; both are from the government, and BPK, and BPKP, which are from state institutions as all they are interested in, and the rest are from public accounting office and academics." (AC.5)

> "IAI can recruit members for the standard board from various backgrounds, such as academics, practitioners and other sectors. Also, on the Sharia Accounting Standards Board, the members can be from public accounting committees, banks and governmental authorities such as Bank Indonesia and Financial Service

Authority or OJK. Those are the reasons upon which IAI is chosen todevelop accounting standards" (SAS.3)

"So far as I know, that they were selected. For example, the academics, the delegation chosen were formed Gajah Mada University and the University of Indonesia and that through acclamation. It might change somewhat if it is replaced by Padjajaran University etc. and soon after it has been mandated to any department in University, they just simply chose whoever is considered able to become a representative. Moreover, finally the selected person was sent, and the profession promoted him" (AC.7)

"Its average members are a partner of big public accounting offices or the big four. In addition to them, are the academics who are chosen by a hard selection process. Moreover, when I was asked by the institution to compete in that position, I had to defeat 16 high-profile partners and academics there." (AC.6)

"We will say that there is no other institution besides IAI. Moreover, DSAK or IAI is assigned to represent some constituents such as public accountants, regulator and the others. Nevertheless, there is a required process like a fit and proper test. (AU.2)

Most of the interviewees quoted above, such as AU.2, P.1, AC.5, AC.7 and SAS.3, understood and recognised the characteristics of DSAK and DSAS membership as delegation and representation. The evaluation from AC.5 described members of DSAK as members from governmental institutions such as OJK (Financial Service Authority), Bank of Indonesia, Badan Pemerika Keuangan / BPK (The Audit Board of the Republic of Indonesia), *Badan Pengawas Keuangan dan Pembangunan* / BPKP (The Financial and Development Supervisory Board of the Republic of Indonesia), and non-governmental institutions such as universities and audit institutions. Similarly, according to P.1 and SAS.3, for DSAS the delegation of membership also came from government institutions such as OJK, Bank of Indonesia, non-government institution such as universities, audit companies and the National Sharia Board / DSN.

Although most members of DSAK and DSAS are represented by the interested institutions, the selection process and the importance of becoming a professional member of DSAK and DSAS remains essential. As is described in the internal regulation of IAI (Article 22), members of DSAK and DSAS should have a sound knowledge and understand of accounting and financial reporting, as well as possessing integrity, intellect, discipline and the willingness to uphold the image of professional accountants willing to perform DSAK/DSAS' and IAI's mission to produce high-quality accounting standards. In addition, there are no particular statements that prohibit non-IAI members from being members of DSAK and DSAS. IAI Organisational Rules 2013 explicitly describes the importance of being an IAI member in order to have a more significant opportunity to become a member of DSAS and DSAK.

During the early establishment of DSAK, AC.5 identifies most members of DSAK as academics from universities. The selection of academics was undertaken through representation and recommendation by universities to IAI. Subsequently, IAI would then promote the person to become a member of DSAK.

DSAK's process of membership selection was evaluated by AC.6 through his experience of the selection process. In addition, the selection process, according to AU.2, highlights the importance of examination prior to selecting DSAK and DSAS members, The awareness of the selection process by AU.2 above confirms the step-by-step nature of the selection process of DSAK and DSAS, through administration, capability and competency selections (Ikatan Akuntan Indonesia, 2018b).

Different actors are involved and participate in the development of Islamic accounting and conventional accounting standards (via the DSAS and DSAK standards-setting process). Interestingly, according to P.1, the members of DSAS also include DSN-MUI as members of DSAS. The reason for choosing DSN-MUI is to represent it as an authorised institution in the *fatwa* development. The aim is to ensure consistency between *fatwa* and sharia accounting standards.

The evaluation of the structural position of IAI is evaluated through structural legitimacy. The interviewees understood the structure of IAI and thus accepted that the accounting standards-setting process was due to the structural position of DSAK; they (the interviewees) understand that DSAK and DSAS are subordinates of IAI and are characterised by delegation. The structural evaluation from interviewees described the role of representation in selecting DSAK and DSAS membership. Although structural reasons were evaluated through representation, professional reasons for selecting DSAK and DSAS membership remained through fit and proper test. The characteristics of fit and proper test (examination) prior to selecting DSAK and DSAS membership board is related to knowledge and competencies; maintaining knowledge and competencies are part of professional character.

Interestingly, the willingness to follow accounting standards is not limited to the structural reasons of IAI as a legitimate institution. Legitimation also appears to be influenced by the rationale of accounting profession.

6.4.1.2. The rationale of accounting profession

The rationale towards accounting profession is also an interesting context. Historically, accountants were recognised by the government to fill the gap in the need for an accounting professional occupation in society. The requirement was to help the society address common problem regarding financial activities. Thus, accountants are regarded as one of the most important actors in assisting responsible economic growth to a nation. In Indonesia, the work of accountants is not limited to the private sector; it has expanded to the public sector and involves preparing financial reports and developing regulations.

The interviewees' opinion relates to accountants in Indonesia which represents the professional considerations, thereby explaining professionalism as the reason for accepting accounting standards development. Despite historical, political and legal reasons, which are supported by the due process context of legitimising accounting standards-setting, the rationale towards the accounting profession (IAI) affects these evaluations significantly. The rationale towards the accounting profession and other legitimate reasons are inter-dependence, interrelatedness and dynamism in constructing accounting standards-setting legitimacy in Indonesia. The logic of accounting profession in this part is mainly related to cognitive legitimacy, in particular taken-for-granted legitimacy due to accountants (IAI) as a professional institution.

The need for qualified and trusted institutions in the development of accounting standards is described below through the commitment from stakeholders in following one authorised institution:

> "Once the business engages the stakeholders, they need information and they have to get the right to it, so that they can give a proper assessment. Never let any asymmetric information in a financial reporting, so that the stakeholders will

accept all authorities they believe since the beginning. Therefore, we need the same terminology. Things will be different if we had two kinds of IAI, and it will not be conducive for supporting any business activities or the implication that a financial reporting will not be served properly, and it will affect the people to make a wrong decision. So, it is a standard rule, and I think that all business subjects, both conventional and sharia, must agree with one institution they believe is qualified to be entrusted to set an accounting standard. Once the institution has published a standard or policy, they must fully adopt it. When they give information to the public and the stakeholders, they will have a same standard, and the public as well as the stakeholders will also have the same." (G.5)

"All know that accounting standards are published and set by DSAK, as if each authority or industry sets its standard, it will cause an error. There must be one single institution to undertake such a duty, and we have agreed that the deserving institution is DSAK. (G.2)

Accounting standards are crucial for business institutions. Accounting standards, according to G.5, should be developed by one trusted standards setter which is accepted among the stakeholders. The institution should be entrusted and qualified with accounting standards development. The interviewee recognised that both institutions in sharia and conventional businesses should accept a single authorised institution, such as IAI represented by DSAK or DSAS.

According to G.2, it is vital to prepare financial reports according to correct accounting standards. Therefore, the accounting standards should be developed by a single authorised institution to create comparability between organisations. Understandably, the DSAK is the only worthy institution. The acknowledgement of DSAK as an authorised institution is indicative of legitimate reasons for DSAK. Thus, the acceptance of accountants as authorised actors, as mentioned by G.5 and G.2 above, are integral to the reasons for which IAI is trusted by others in the standards-setting process.

According to AC.1, accountants (IAI) is an entrusted organisation due to professional considerations:

"Well, I think that *we all still trust IAI*, the Indonesian Institute of Chartered Accountant to fully *run their professional function*. Moreover, if we find one or two bad accountants or some bad public accountant offices, which are everywhere, even in America or Britain, it does not mean that all accountants are bad or unqualified “(AC.1)

This explanation shows the perception of trust towards accountants (IAI). The trust toward IAI is due to the identification of IAI as a professional institution. IAI is also evaluated while maintaining its professional work. The recognition of IAI due to its professional activities shows taken-for-granted perception towards IAI. Interestingly, the interviewee also pointed out that bad or unqualified accountants do not represent all accountants or reflect the professional institution. Therefore, the interviewee understood that professional institutions such as IAI have applied their professional competence and function, explaining the stakeholder’s belief and trust in IAI.

It is essential to understand the rationale behind the recognition of IAI as a professional institution. These understandings will also help to comprehend the logic behind IAI as legitimate actors in the standards-setting process in Indonesia. Professional considerations towards IAI is constructed based on different reasons. The rationale is thus institutionalised in the form of belief and rationality. It exists through connection between IAI as an authorised institution with other institutions following standards setting agenda in Indonesia.

There are many reasons for constructing IAI legitimacy as a professional institution. One of the main reasons which identifies IAI as a professional institution is trust. Below is a description of IAI as a legitimate institution trusted by different parties:

> “up to now, IAI is *still trusted* by the parties. The reason for trust means that since *IAI is considered as a credible profession association, and the fact that they are, it is fair enough for us, the academics and all society, to believe in them to held and set accounting standards.* What about Financial Accounting Standards Board or DSAK? Well, as IAI had chosen them and *it is also a part of IAI which represent all Indonesian accountant, they also deserve to set accounting standards*.” (AC.1)

> “There is a simple answer to that question; it is because IAI is a profession which is always *professional in accounting*, and *such ability is crucia*l for accounting standard setting.” (AC.6)

> "Yes, we can. DSAK is the one who sets and translates, but in the fact that we just adopt internationally common practices. So, the industries *entrust such a duty to DSAK under the command of IAI.* Moreover, the one who is *professionally qualified and credible to translate and set an accounting standard is the accountant*. However, we can be chosen as part of IAI, but coincidently we are also selected as part of DSAK. *When the industries entrust to us, and whatever we set and publish, they follow it.* It means that they do believe in us, in IAI. Therefore, due to that trust, IAI has the credibility to undertake that function. So, if it is asked 'do the industries believe in IAI?' its answer is definitely 'yes'. It is impossible that an accounting standard is set and published by a doctor or pharmacist. So *as the standard is established by the credible profession, the industries must believe in it*, and so far, I never find any miscommunication or misperception towards the international standards we had adopted. There is not any fatal flow done by DSAK so far. We had adopted many international standards. Therefore, the industries still feel comfortable with the accounting standard that is set by DSAK" (G.2)

The recognition bestowed upon accounting profession and institutions are described by AC.1, AC.6 and G.1 above. AC.1 IAI describes accountancy as a credible profession and the professional institutions as fair towards their stakeholders. The trust perception of DSAK mainly relates to IAI (DSAK subordinate IAI). The description from AC.1 and G.2 above recognised that DSAK is an institution under the control of IAI. Hence, stakeholders have trust in DSAK since DSAK is part of IAI and IAI represents all accountants in Indonesia. These reasons show taken-for-granted legitimacy towards IAI. IAI is considered as the sole institution representing accountants in Indonesia and which is credible in developing accounting standards. The feeling of trust towards accountants is represented through the importance of maintaining professionalism. Since IAI is a professional institution, stakeholders accept the process of developing accounting standards.

In addition, the interviewees' rationale for characterising DSAK as a professional institution is due to its credibility in translating accounting standards. Evaluatively, the trust towards DSAK represents IAI as a credible institution just like other professional institutions. The interviewee (G.2) emphasised that industries must believe in the credibility of professional institutions in developing accounting standards. Arguably, the interviewee also recognised the ability of DSAK in developing accounting standards, so there were no errors or misconceptions between PSAK and IFRS. The recognition of IAI in translating accounting standards, and the understanding that IAI is a professional institution, are characterised as taken-for-granted legitimacy of IAI in accounting standards development.

Below are other logics describing IAI as a professional institution from the government and regulators:

> "First, *DSAS and DSAK have their regulation, they have rules, and their first rule is being independent, and the second is objective*. The public trusts that since this institution, so they have to be *free from any intervention*. […] The availability of this accountant can also become a demand for the institution that is entrusted to set an accounting standard. Such a function has been running so well, that as an institution given the right to establish a standard, even it is not only for accounting courses but also other courses, must be trusted. *Through its institutional structure*, IAI and its department (DSAK and DSAS) deserve to set and publish accounting standards" (G.5)

This explanation from G.5 above describes the rationale of the interviewees' in characterising both DSAK and DSAS as professional institutions due to their identification that IAI applies its professional character such as internal regulation, independence and objectivity. Thus, this rationale, besides characterising the interviewees' perspectives as procedural legitimacy, also depicts taken-for-granted legitimacy as due to IAI running its professional function.

In addition, taken-for-granted-legitimacy also appears due to the recognition that IAI is a professional institution and free from intervention. Free from intervention means that the development of PSAK or PSAKS should be consistent with international standards.

Below are other explanations from interviewees related to the logics of IAI as a professional institution:

> "They are *fair* towards various actors. *Objective*." (G.1)
>
> "Moreover, all this time, I can say that IAI can *stand independently* between various stakeholders with their different needs" (G.1)

This recognition and evaluation by G.1 of IAI as a professional institution shows IAI as a fair institution towards different actors. This perception of fairness is related to the role of IAI as an independent actor among others, while accommodating to the needs of different actors in the development of accounting standards.

The recognition of IAI as a professional institution is also described through awareness that IAI members hold almost every strategic position in Indonesia. Below AU.3 described the availability of accountants and the fact that IAI is seen as a strong accounting profession due to its availability in different occupations and work areas. Accountants, according to AU.3, can be found holding different positions in both public and private organisations.

> "The accountant spreads everywhere. What called as IAI can be accounting practitioner or the auditor. Practical accountant refers to those who work in private companies or governmental enterprises or the public sector. The accountant also becomes a lecturer or professor in University. So, there are various positions. Therefore, it creates the possibility of having a strong accountant team in IAI. If this stuff is handed to the financial ministry, the opportunity will be given to particular people in that department. So, it may be different, and IAI consists of independent individuals who understand financial reporting." (AU.3)

The recognition of IAI members and its character as professional institution is described by AU.3 who identifies the professional considerations associated to historical background and its knowledge competency:

> "Well, because the one who knows all the financial accounting cases well is indeed the accountant. *The accountants have the knowledge, the history and also well-established organisation*. Moreover, it was formed in Indonesia a long time ago, an Indonesian Institute of Accountant which is strong and dynamics. Moreover, the government sees that IAI also had competency to become a government partner in developing regulation for the financial report. Indonesia's pattern may differ from some other countries, and that accounting standard setting process is taken over by the finance department or by the government. Many IAI members are coincidently a governmental officer, so it is clear that the government knows that IAI does not have any intention of making something wrong which is not in line with the world's best practices." (AU.3)

"We also have such competences like IAI has, IAI being able to organise the process to develop accounting standards. For example, in the sharia accounting standard board for sharia accounting standard, there are experts or interested parties who are interested but are not included in the standard setter team, as developing accounting standards requires a process, instrument and infrastructure. Moreover, *IAI, besides its competencies*, *also has an infrastructure* to set the standards. Also, historically, IAI is the first association for Indonesian accountants; it will be prioritised to undertake such function, even though we can find a similar institution such as IAMI (*Ikatan Akuntan Manajemen Indonesia*/Indonesian Institute of Management Accountant), but still IAI is the oldest accountant organisations. Those are two reasons upon which I believe that IAI is chosen for such a function, or it may actually be three; first since IAI is the oldest accounting institution in Indonesia. Second, IAI has the required infrastructures, system, procedure and other requirements, and I consider this as a consequence of my first reason." (SAS.3)

"I think it is also the reason, as this case is related to professions that know about the course more than anyone and they must be those who engage in that expertise. Therefore, *IAI becomes the qualified institution that represents all Indonesian accountants.* Moreover, as accounting standard is the language of an accountant, I think it is appropriate if we hand the matters to the experts." (AU.4)

"Yes, they do. Since they are the rule-makers, *they learned accounting and knew its philosophy,* and they prepared everything for the purpose to see user's needs. Moreover, they created all to make it as a standard." (P.3)

"I think that *professional association is quite strong here*, those such as the association of Indonesian Doctor, and of Indonesian Accountant, both have a strong position which means both have PPL, sufficient funds and executive staff etc. These things keep the organisation running. Moreover, for another association, it may have only one or two members, but ours, we have many staff such as DSAK which has 8 or so members." (AC.2)

Based on AU.3, AU.4, P.3 and AC.2 descriptions above, the recognition of IAI as a professional institution is due to their expertise in knowledge and qualifications to deliver accounting standards. IAI is seen to have competency and expertise in addition to representing all Indonesian accountants. Evaluatively, the interviewees also understand that accounting is the language of accountants. The evaluation of accounting matters, and accountants, according to AU.4 and P.3, show trust and acceptance of accounting standards. In addition to competency and knowledge capability, it is essential to maintain and stay up to date with knowledge in the profession. According to AC.2, IAI legitimacy is due to its professional characteristics which are maintained through knowledge competency and a proper institutional structure. IAI is considered an expert in the context of accounting standards for both knowledge and application. Hence, the cognitive reasons show that taken-for-granted legitimacy undeniably exists due to professional considerations.

However, AU.3 described the trust by the Indonesian government towards IAI as a legitimate institution. Interestingly, many IAI members also hold a position as government officials. The various positions of accountants who hold positions in the country create better networking and communication. Accountants become important actors which are only relevant to the application of financial reporting and beyond.

According to SAS.3, the awareness of IAI competency is supported by the recognition of IAI infrastructures, system, procedure and other requirements which are well evaluated for supporting the development of accounting standards. The awareness and willingness to follow IAI as standards setter because of its competency and other factors (infrastructures, system and procedure) show the combination of moral legitimacy and taken-for-granted legitimacy of IAI.

Similarly, the acceptance from government institutions is also another reason for accepting accounting standards by its followers. Below is a description by an academic on government acceptance:

> "In my view, the government did not consider it seriously; they only knew that if things were regarded as accounting standards, so IAI is the one who deserves it. Even I could not see if the government was thinking about it deeply; it is not like in America where one thinks about forming an independent institution. Besides, historically, in Indonesia, the development of accounting standard is the

> responsibility of accountants, and once the demand comes from G20 to the government, or the need for standards development, they seem not to have any other choice except the accountant" (AC.5)

The government's acceptance towards IAI shows that it does not have any interest in taking over the responsibility for standards-setting process in Indonesia. Instead, as described by AC.5 above, the acceptance by government institutions has historical reasons. The willingness of the government to accept IAI is because it does not have a choice. IAI is the only recognised professional institution that is internationally linked with IFAC. The government's willingness to follow IAI clearly presents taken-for-granted reasons.

The logic of IAI as a professional institution is also described through the capacity of IAI to provide solutions, as is described below by G.1 and G.9:

> "it is for *their ability to give a solution*. Take tax amnesty for example, as there are some problems on how the asset or its liability is, or how the profit is measured. Due to these problems, the industries refer to IAI, as they believe that *IAI can give a proper solution* for them which is related to standard or guidelines etc." (G.1)

> "Yes, there is such assumption, *even it is not just an assumption anymore, but a belief that if the users have a financial problem, they will be consulting with IAI.* It is not only the stakeholders including the preparer and regulator, but also the Ministry will also be consulting with us, for it is us who set the standard on which they base their financial reporting." (G.9)

As stated above by G.1, the work of accountants as capable institution shows through the perception that accountants can provide solutions to accounting related problems. An example, according to G.1, relates to the current issue of tax amnesty. It was believed that IAI could help resolve the problem of disclosing tax amnesty activities in a company's financial reporting. The tax amnesty period in Indonesia lasted from July 2016 until March 2017. The programme was initiated to make hidden assets accountable. The government's implementation of a tax amnesty was aimed at increasing tax income for the government. Entities that participated in this programme required a proper disclosure in financial reporting, and the industry therefore preferred accountants to solve this problem. The acceptance of the industry towards accountants presents taken-for-granted legitimacy as due to IAI's ability to provide a solution.

According to G.9, IAI is capable of delivering service towards industry through consultation on accounting matters. The act of consulting towards IAI is also conducted by other stakeholders such as government institutions (if government institutions have particular accounting problems that need to be resolved/consulted with IAI). Stakeholders already believe and trust IAI as a competent professional institution. IAI's legitimate position is already well established over time and society has trust in its capabilities.

The acceptance of IAI as a legitimate actor by stakeholders means that no other institution can compete with IAI. Hence, there is a great reliance on IAI:

> "That is because we, the *regulators do believe that it is the only institution in Indonesia which is appropriate to rely on and none other is comparable to them*." (G.8)

> "We have been setting accounting standards since 1983, and we kept being requested to set another accounting standard. Thus, if another institution wants to set accounting standards, it shall think "am I qualified enough for this duty?" compared to us who have been setting accounting standard since 1983." (AC.2)

According to G.8 who represents the regulators and government, stakeholders entrust the development of accounting standards to IAI because of its capabilities. No other institution can compete with IAI's professional capabilities and knowledge understanding. Professional considerations are reasons to accept the standards-setting by IAI. This visibly demonstrates that taken-for-granted legitimacy appears in this context due to professional considerations; no other institution in Indonesia can compete with IAI in terms of their accounting knowledge and professionalism supported by historical reason.

AC.2 above shows the acceptance of IAI standards and reliance on IAI. Historically, the action of DSAK to produce PSAK exist since the establishment of the capital market until nowadays. The recognition of DSAK as a legitimate actor shows its willingness to follow PSAK standards from the time when capital markets were established until the convergence of IFRS. Interestingly, the recognition of IAI as a qualified profession is also due to no other institution being able to imitate what IAI did in the development of accounting standards.

IAI as a legitimate institution is also described by AU.2 and P.1 as an institution that is capable of developing accounting standards:

> "Maybe, it is also the factor for stakeholders accepting IAI's standard. *IAI is perceived as having some capability*." (AU.2).
>
> "I think it is *due to their experiences, expertise and ability*. Their capacity is *qualified for an institution*. Nevertheless, they are not a governmental institution. IAI is a just association of the accountants that makes a product that next is labelled by the regulator. So, it has the force of law, and it makes the product stronger. So, it is *due to their competencies, expertise and also their independence from any interventions*." (P.1)

According to AU.2 and P.1, the willingness to accept IAI as a legitimate institution is due to IAI capability, experience, expertise and ability to develop accounting standards. For this reason, it seems that the preparers and audit institutions well understood the role of IAI as a professional institution. The willingness to follow IAI, which is just a professional association, clearly show taken-for-granted from professional considerations. The professional considerations in this description described IAI through competence, expertise, independence and free-intervention.

The recognition of IAI as an authorised institution is also described by P.2 as one of the reasons for acceptance:

> "IAI is the only association. Even recently IAI has been requested to maintain all Indonesian accountants which formerly a ministry of finance did it. Moreover, now if they get accountant status, to complete their profession, they must be legitimated by IAI. Thus, IAI received a significant mandate from the government to maintain the accountant. Therefore, from the view of IAI's competency and formal legal legitimacy, it is fair for IAI to have it. Moreover, it also has been referenced and agreed, received from the public accountant board, to become a reference for audit, so there is no other standard besides IAI." (P.2)

Referring to P.2 above, IAI is just an association of accountants, therefore, the interviewees perceived IAI as a legitimate institution via taken-for-granted legitimacy.

The legitimacy is described through the acceptance by others to follow IAI activity in accounting standards development. Nowadays, IAI's trust has increased due to the government's handover for IAI to maintain professional accountants. Previously, the Indonesian Ministry of Finance was responsible for matters pertaining to professional accountants and issuing registered numbers for accountants. This role has now been given to IAI, as such the government's willingness to hand over their authority to IAI again shows IAI's competency and legitimate position.

In addition, the research also found that IAI also identifies as an independent institution as described by AU.4 and AC.2 below:

> "As an accounting standard must be *independent*, its setter must also be independent and able to represent all business stakeholders. So, if the case were given to the government, it would not be that independent. I think it is *fair enough* to choose IAI as an authorised institution of accounting standard development, *as they are independent* and can do all the above things." (AU.4)

> "However, in my opinion, if accounting standards are set and published by IAI, this will make its legitimation better than if the government issues it. Then the government can simply make it for IAI privately, that is the first reason for me. So the legitimation becomes higher if the standard is published by association of the profession, for they have technical legitimacy. Such an association is considered technically competent to publish financial accounting standards. However, from another side such as a researcher, I think that the government does not deserve to set accounting standards as they are also playing in real sectors by having 118 big national […]. Our government is not like US government that does not have any governmental enterprises; our government, they are huge corporations. Moreover, the BUMN (state-own-enterprise) is like holding corporations. If they set accounting standards, can we just believe that the standards are purely for general purposes not for their interest as the player, not the regulator? Therefore, I see that this duty is better given to IAI or a non-governmental institution." (AC.2)

According to AU.4 and AC.2, the recognition of IAI as an independent institution confirms IAI as a legitimate institution compared to government institutions. The independence of IAI as standard-setter through DSAK is unquestioned by others since

IAI is categorised as a professional institution. Even the interviewee AU.4 compared the independence and trust between IAI, and the government concludes that IAI as a more independent institution. The explanation from AU.4 identifies the trust towards IAI as a legitimate actor and AU.4's comprehension of IAI as an independent actor. According to AU.4, the independence of IAI makes stakeholders believe in IAI and it represents all stakeholders in the process of developing accounting standards. The recognition of IAI as an independent institution shows the perception that IAI is more independent in comparison to government institution.

The understanding that IAI has better trust than government institutions is also described by AC.2 through the acknowledgment that IAI is more competent compared to government institutions in developing accounting standards. The interviewee also considered that the professional considerations between the government and IAI were different in relative terms. Structurally, the government owns the majority of the big corporations in Indonesia, while IAI is merely a professional institution. The difference between government and professional institutions is that professional institutions usually better manage their professional perspectives than do government institutions. The trust and belief towards IAI as a professional institution compared to government institutions shows taken-for-granted legitimacy towards IAI.

In addition, the identification of IAI as a professional institution is due to IAI as association for accountants in Indonesia. IAI is recognised as an institution for all accountants, as described by the preparer below:

> "I saw Indonesia Institute of Chartered Accountants or IAI as a professional institution where all accountant assembles and forms an association. Such an association urges them to have a professional judgement, whether about their education or involvement in accounting or their best practices." (P.1)

> "IAI is, in fact, an Indonesia Institute of Chartered Accountant where the accountants assemble. Moreover, accounting standard setting requires the involvement of people considered competent to engage in setting an accounting standard. There are many from industries or DSN, and sometimes we also invite other experts of disciplines if we need them to solve any problem as, if we talk about accounting, this requires the involvement of knowledge as well as competencies." (P.2)

The explanations from P.1 and P.2 represent the preparer's evaluation and recognition with regard to professional considerations towards accountants. P.1 recognised the role of IAI as a professional institution and institution where accountants in Indonesia gather. The recognition of IAI as professional institution is described through the importance of education as the foundation of professionalism and experience of conducting professional work.

Although IAI is an authorised institution, it still requires cooperation from other interested institutions. For both sharia and conventional standards, the need for experts in the development of accounting standards has allowed IAI to become a legitimate institution with the support of other qualified actors. According to P.2, in the development of sharia accounting standards, the cooperation and communication between IAI and other institutionalised actors exist. Another expert is needed in sharia accounting standards development, and religious actors should be involved in maintaining the quality of sharia accounting standards.

The next section presents acceptance due to religious consideration in the development of accounting standards.

6.4.2. Legitimacy based on religious beliefs

This section explains how religious beliefs affect the legitimacy of standards-setting in Indonesia. This section is divided into two sections: (i) the role of Islamic principle and *fatwa* and (ii) the role of Islamic actors. The importance of sharia principles illustrates the essential and commitment of sharia accounting standards in Indonesia to reflect sharia principles including *fatwa*. *Fatwa* has become the main sources of sharia accounting development. This research also identifies how religious (DSN/sharia national board) actors engage, participate and influence the standards-setting process in Indonesia.

6.4.2.1. The role Islamic principle and *fatwa*

Sharia accounting standards are standards that are developed to accommodate and regulate sharia transaction in Indonesia. Therefore, the reasons for accepting sharia accounting standards should be based on the assumption that sharia standards should reflect the sharia principle and values. The views on how important it is to develop sharia accounting standards according to the sharia principle is identified through the recognition of sharia principles as the primary source of developing sharia accounting standards:

> "It is because of the "sharia" word. So, we or our PSAK must be able to translate or comply with sharia." (P.2)

> "Sharia accounting standard is, in fact, is a special one. So, we may start from the philosophy reason. First, there are some different business operations whether or not they comply with sharia rules, in accordance with that, we need specific sharia standards." (SAS.3)

> "Well, the application of sharia accounting standards does not relate to a particular characteristic of sharia business, and instead applies due to business characteristic related to a particular type of sharia transaction." (G.1)

> "Yes, at the first place. Moreover, sharia product cannot be separated from religious aspects. If we do not link conventional products to religion, it will flourish more than conventional banking. We do not have to invent or manage a product if it is equal to conventional. Also, for the product fulfils sharia requirement, it is the responsibility of National Sharia Board or MUI." (AU.3)

> "If we want to capture and talk about sharia accounting, to record a sharia transaction, we must make sure that it is a real sharia transaction the next process is recorded it. Consequently, if we do not have a sharia transaction, accounting would not be so urgent. Moreover, sharia accounting becomes another thing when it reflects a sharia transaction itself. It means that sharia transaction must be the priority. Maybe, if we see its conceptual framework of sharia accounting, we will find it unique as we will find a sharia characteristic there. What are sharia characteristics? It is a characteristic of a transaction in which we are prohibited from *gharar* (gambling), *maisir* (uncertainty) and these are not found in the foundational frame of general accounting." (G.6)

> "It differs from conventional standards as conventional accounting just needs IAI. Sharia standard requires legitimation from National Sharia Board, and its

recording must refer to the sharia principle as the nature of the sharia transaction is different from the conventional transaction. So, never let sharia transactions be recorded by conventional means." (G.5)

The views above describe the need for accounting standards that can reflect sharia transactions. Therefore, the standards should be able to interpret and translate the sharia principles. According to preparer (P.2) and the sharia accounting scholar (SAS.3) above, the reasons for the preparer following sharia accounting standards are due to its unique terminology of "sharia". The term "sharia" was adopted by DSAS as the name of the accounting standards developed by DSAS. Therefore, it is essential for DSAS to comply with the standards of sharia values and principles.

The reasoning behind the development of sharia accounting standards is mainly related to sharia transactions instead of business types as described by G.1. Additionally, SAS.3 pointed out that since SAKS/sharia accounting standards is a special standard which regulates sharia transactions, it needs correct sharia standards to represent sharia laws. The relationship between sharia accounting standards and sharia values according to AU.3 cannot be distinguished from its religious context since sharia and sharia accounting standards are inseparable.

Similarly, the views of G.6 above also described the importance of sharia transactions to be recorded based on sharia accounting standards. In addition to aligning sharia transactions and sharia standards, G.6 also described the uniqueness of sharia accounting according to its conceptual framework which adopts the characteristic of Islamic transactions and prohibits certain concepts that violate sharia. Conversely, according to G.5, the rationale behind sharia accounting standards is to ensure that business transactions adhere to sharia concepts; hence the reporting should be able to assist sharia transactions. Moreover, the interviewee also stressed that it is essential to report sharia transactions using sharia standards rather than adopting conventional standards, since the nature and character of sharia transactions are different from conventional transactions. The role of sharia as religious reason is well understood as the greatest influence on sharia accounting standard development. The recognition that sharia accounting standards should present sharia principles presents taken-for-granted legitimacy as due to religious aspect and consequential legitimacy following sharia principles.

As it is important to adhere to sharia principles as a primary source of developing sharia accounting standards in Indonesia, it is also pivotal to understand the rationale behind comparisons between sharia and conventional contexts. Below is a description in relation to what is more important between sharia and conventional preferences:

> "If we look at it from a conventional standpoint, it is clear that the standard is only the international standards. Then it has its derived standards, so how will they be if they did not have any references? In other countries, in accordance with experts' opinion, they have a special board for such cases, or they have their GAAP. If in sharia we have two pillars; first, we have to refer toward international accounting standards, then it can be ignored if it does not match with sharia compliance. So, both are equal in terms of necessity. If I am asked which one is more important? Sharia compliance is. So nonetheless if such cases in conventional or International standard accounting are applied, once it does not reflect with Sharia principles, we will not adopt it." (G.3)

> "We will give more priority to the sharia course instead of its accounting course. Moreover, we will not set its accounting standard if it does not meet the *Fiqh* rule. For example, not long ago, Indonesian Bank proposed sharia hedging but another person is talking about Sharia commodities. Moreover, since the *fatwa* for sharia commodities is not clear yet, IAI postponed its process. It is in time with repo-sharia proposal, but as repo-sharia has had its *fatwa*, we proceeded with it firstly." (G.8)

> "So which one is given more priority? Well, I see that accounting values are weaker here. Moreover, when I teach my students, I always say to them that accounting standard setting can be reduced from its theory or its conceptual framework if we do not find any problem in it. However, when we find it, we must leave accounting values. The dominant issue is an economy problem, and nowadays problems regarded as sharia accounting results in sharia values winning over accounting values. Thus, is a general framework of sharia accounting." (AC.8)

Furthermore, the description by G.3, G.8 and AC.8 above explains the importance of sharia context compared to the accounting context. For example, G.3 recognised the application of PSAK-IFRS in Indonesia as mainly to accommodate conventional transactions and also compared PSAK-IFRS with sharia compliance. Accordingly, the views of sharia compliance should become a priority for financial reporting since it is essential to reflect the characteristic of sharia transaction.

In terms of priority, G.8 expressed that the sharia context was clearly more of a priority compared to the accounting context. The interviewee also gave an example of the importance of *Fiqh*[49] applied in sharia transactions, for instance, where certain Islamic Banks in Indonesia have tried to conduct sharia transactions even before a *fatwa* had been proposed by DSN-MUI. For instance, DSAS prefers to postpone the development of sharia commodities due to there being no *fatwa* from DSN-MUI as a legitimate actor in sharia law.

Additionally, AC.8 thought that accounting tended to be weak compared to other theoretical frameworks such as sharia. Conventional accounting is usually used as a technique rather than a purely theoretical concept that drives and answers all aspects of financial reporting. In the context of sharia accounting standards in Indonesia, the sharia concept always wins compared to conceptual framework of accounting theory.

Clearly, the above descriptions present the views that sharia principles are perceived as a substantial factor in the financial regulatory system of Indonesia; thus, this reason identifies taken-for-granted legitimacy due to the understanding of the importance of Islamic principles. Sharia principles and values are perceived by the interviewees are more important than the accounting context. The interviewees agreed that sharia principles are vital sources to be preserved and maintained. The belief in sharia values as an underlying factor of sharia accounting standards represents cognitive (taken-for-granted) legitimacy due to the important factor in following sharia principles. In addition, the consequence of Islamic accounting standard development is to create accounting standards reflecting sharia; thus, the evaluation from the interviewees in this section on accounting standards development is to follow sharia categorised as consequential legitimacy. Thus, the types of legitimacy relate to the importance of sharia accounting standards categorised as taken-for-granted and consequential legitimacy.

[49] Islamic philosophy based on Qur'an and Hadith of prophet Muhammad (Peace be Upon Him).

The next section describes how *fatwa* identifies as the primary foundation of sharia accounting standards development.

6.4.2.2.1. *Fatwa* as the foundation of sharia standards

The perceptions of *fatwa* and its effects on the sharia standards-setting process are described positively by interviewees. *Fatwa* is explained as the foundation of sharia accounting standards in Indonesia, for instance:

> "As long as I know that sharia SAK can just be set only if its *fatwa* exists. It is either that the standard waits for fatwa or that fatwa exists but then we interpret it as an accounting standard. (AC.2)
>
> "For sharia, accounting is close to fatwa or, in other words, sharia accounting lies with its Fatwa." (AU.1)
>
> "Yes, indeed. Our sharia accounting standards are based on fatwa. This means that we can only develop our sharia accounting standard, only if we had a fatwa for it. When we intend to publish a draft exposure, we will send our draft to DSN-MUI first to question them." (G.9)
>
> "Well, as we have many challenges in DSAS such as we have to inline the fatwa and accounting standard. Moreover, if we find the difference that the transaction is forbidden upon fatwa, we have to develop the case independently, and the standard cannot refer to IFRS." (AU.4)
>
> "Moreover, in sharia accounting, sharia is the first, as without fatwa they will not run." (SI.2)
>
> "Most vital, even it has been included in, for instance, the Ministry and the Bank Indonesia; there is the Bank Indonesia Regulations (PBI / *Peraturan Bank Indonesia*) about sharia accounting stating that all Indonesian sharia banks have their right to regulate. They set their regulation and each must use the valid standard in reporting its financial position. The meaning is that the reporting styles must reference to the National Sharia Board of MUI. *Fatwa* has a great role. Therefore, its *fatwa* becomes one of the primary things that are intensely discussed

in the regulator levels since they can affect all regulations that are in touch with the sharia entity, such as the Indonesia Institute of Chartered Accountant." (SAS.4)

"Yes, it is. If there is a new business practice, we will ask the *fatwa* to DSN-MUI whether the business is allowed by sharia or not." (SAS.3)

"[…] since PSAK 59 was just related to sharia banking. However, due to its development, many *fatwa* were formalised to find their proper accounting treatment." (SI.3)

The description from AC.2 above underlines the importance of sharia accounting standards being consistent with a *fatwa*. As observed by AU.4, consistency means that every step of the sharia accounting standards should reflect and align with the *fatwa* given by DSN-MUI. The existence of sharia accounting standards cannot be separated from the existence of *fatwa*. Accordingly, *fatwa* is the guideline for sharia accounting standards development. Interviewee AC.2 also compared PSAK-IFRS with the role of PSAK sharia. PSAK-IFRS in Indonesia is applied consistently with the IFRS standards, with a one-year gap between PSAK and IFRS. However, in the context of sharia, the logic behind sharia standards should be based on the *fatwa*. The reason that sharia standards should reflect the *fatwa* of DSN-MUI is explained by AU.1, AU.4 and G.9 above. The significant role of *fatwa* is reflected through the dependence of sharia accounting on *fatwa*. As G.9 stated, the development of sharia standard should be based on the availability of that *fatwa* and should not refer to international standards such as the IFRS. *Fatwa* seems to be a factor that can legitimise IAI as a standards setter since without *fatwa*, sharia standards-setting would not exist.

The act of developing sharia standards will exist in situations where DSN-MUI as a legitimate actor has already issued *fatwa* in advance, as is described by SI.2 above. The actions by standards setters to interpret *fatwa* is paramount in the development of sharia standards itself. According to SI.2, the development of sharia standards should reflect the *fatwa* and the need to understand the application of transactions regarding the *fatwa*. Accordingly, standards setters should begin to develop sharia standards. Interestingly, the interviewee also described that in sharia accounting, *fatwa* or sharia reasons exist above everything else. Clearly, without sharia or *fatwa*, accounting for sharia transaction would not exist.

The views of *fatwa* as a fundamental part of sharia accounting standard is also explained by sharia accounting scholar and sharia institution (SAS.4, SAS.3 and SI.3) above. The interviewee identified *fatwa* as a vital component in the development of sharia accounting standards. The recognition that *fatwa* is a fundamental part of sharia accounting standards exists through the rationalisation that *fatwa* is always needed if there are new sharia practices founded as described by SAS.3. Moreover, the interviewee gave an example of how a *fatwa* by DSN-MUI was adopted by other institutions such as Bank Indonesia to regulate Islamic banks. Since *fatwa* from DSN-MUI is an important factor in influencing and regulating sharia institution, it has become a principal point of discussion in regulatory spaces, including the IAI.

Initially *fatwa* has been used to assist sharia transactions, however, with the rise of sharia transactions there has been a demand for proper accounting regulations. *Fatwa* from DSN-MUI adoption is an essential resources to develop many regulations including accounting standards. Since *fatwa* is strategically crucial due to DSN-MUI's ability to provide solutions, more institutions believe and trust DSN-MUI for the accountability of its *fatwa*. Contextually, the power of *fatwa* is well-recognised as the main factor to regulate financial institutions in Indonesia. Thus, this recognition of *fatwa* represents taken-for-granted legitimacy due to *fatwa* in sharia accounting development.

In addition to *fatwa* being a foundation of sharia accounting standards in Indonesia, the interpretation of *fatwa* is also identified as moral (procedural) reasons. The next section will explain *fatwa* as procedural acceptance of the sharia standards-setting process in Indonesia.

6.4.2.2.2. *Fatwa* as procedural acceptance

Since *fatwa* is described as the foundation of sharia accounting standards in Indonesia, below is a description related to the procedural context of sharia accounting standards-setting that is main influenced by *fatwa* as the primary source:

> "Surely there are. DSAS must refer their decision upon *fatwa*. So, it is started from *fatwa* and then was translated it into accounting standards. As for DSAK, it started its process from a business transaction, that is how the can transaction is captured,

> or its recording is set in accounting standard. In DSAS's phase, it started from the *fatwa*, and was then followed by accounting standard. Moreover, DSAS's phases are started from business practices and how it is captured in accounting standard. I think that this is the difference, and we cannot avoid *fatwa* if we want to set sharia accounting standard." (AU.4)

The procedural perspective of sharia standards-setting is presented through the relationship between DSAS and DSN-MUI, specifically the relationship between PSAKS and *fatwa*. According to AU.4, throughout every step of developing sharia standard, DSAS should refer to the proposed standards with the DSN-MUI *fatwa*. The role of *fatwa* in influencing sharia standards initially began with the *fatwa* itself, and was then followed by accounting standards. Essentially, in the procedural context, *fatwa* become an undeniable factor to the succession of sharia accounting standards development.

The importance of *fatwa* as the first directive of sharia accounting standard is described by AU.3 below:

> "Generally, our first directive was *fatwa*; then we tried to translate it into a standard. That is the principle upon which we worked firstly. However, we would always read all standards published by AAOIFI, and we counted them as our other main references. But not a time long ago, there was an AAOIFI standard named "for Islamic Financial Institution" which means that they see sharia transaction through the view of Islamic bank or Islamic Financial Institution. Therefore, here in Indonesia it may not be sufficient enough if we set a standard and it is not only for the bank. We want a standard for a sharia product." (AU.3)

The development of sharia accounting standards not only reflects *fatwa* as the primary source but also the fact that DSAS aligns PSAKS with AAOIFI standards at times. However, there are different conceptual frameworks between sharia accounting standards in Indonesia and AAOIFI standards. AAOIFI standards specialise standards for the Islamic Financial Institution. AAOIFI's standards is focused on the institution rather than the transactional perspective DSAS wanted.

The *fatwa* interpretation for DSAS is described by AU.3 below as:

> "Once the *fatwa* decided something, we just need to interpret, and it is not too difficult though. However, what requires significant effort is translating *fatwa* into

> accounting standards which are useful and reliable and also relevant. Reporting requires creativity and deep thinking. That is what IAI tries to give." (AU.3)

In terms of the role of DSAS, AU.3 stated that the process of developing sharia standards was not an arduous process since DSAS only needs to interpret *fatwa* from DSN-MUI. The statements that DSAS has the ability to interpret *fatwa* in accounting standards show that DSAS also has the ability to transform *fatwa* into correct accounting standards.

The commitment from DSAS in recognising *fatwa* and DSN-MUI as a legitimate actor is shown below through the recognition that IAI should follow the *fatwa*:

> "whereas *fatwa* forbids us to do such transaction, so which one will we refer to? That is DSAS's challenge. Factually, an accounting standard is an accounting practice, but if the practice cannot be entirely consistent with its fatwa, so what to do? Do we have to follow that wrong standard or practice? We should follow the fatwa, and because of it, be challenged by industries and stakeholders, even the industries will be saying that the transaction will not run if we keep using the standard derived from sharia, so we must use conventional principles. How to use the Sharia principle as the conventional transaction does not have its absolute principle in sharia course; this is what is worrying." (AU.4)

AU.4 also explained that DSAS follows DSN-MUI's instructions through its *fatwa* for prohibiting particular transactions by financial institutions if the transactions violate *fatwa* and Islamic principles. The decision for DSAS to follow *fatwa* can sometimes create uncertainty for the industry. Nonetheless, the DSAS has committed itself to follow the *fatwa* as a legitimate source for sharia accounting standards. Thus, legitimacy due to *fatwa* is not only identified through procedural evaluation but also through taken-for-granted-reason due to the commitment to *fatwa*.

Another reason, besides procedural ones, for following *fatwa* as a primary source of developing accounting standards is due to moral reasons, as described by G.3 below. Following the *fatwa* by DSN-MUI on sharia accounting standards is part of the responsible activities.

> "We also have a moral responsibility for translating *fatwa* into accounting standard context correctly." (G.3)

In addition, the moral motivation of the following *fatwa* has become an embedded factor in determining what factors influence sharia accounting standards.

> "This is started with the policy of business development. Sharia business development has just run latterly, and it always follows conventional business development. On the other side, sharia has specific rules that cannot be underestimated as it relates to the life in this world and hereafter. In the sharia context or sharia accounting context, a business follows its *fatwa* published by DSN-MUI. Moreover, then after business runs its *fatwa*, it is recorded by accounting. So, if we talk about which one is given more priority in accounting standard setting? Both have the same level and portion since, in its early period, the business had already had its sharia aspect [...] Therefore, it is not given more priority than the others, all run together. No one is more important than other. If we talk about choice, it should be in *fatwa* formalising process, not in accounting." (G.5)

As described by G.5 above, the commitment of following *fatwa* is not only a commitment towards business contexts, but also a religious one. G.5 described how the existence of sharia standards cannot be underestimated, despsite sharia transaction following conventional transactions. The commitment is to expand and regulate sharia transactions according to current sharia regulations which are sharia accounting standards that reflect the *fatwa*. Therefore, *fatwa* and religious reasons become significant factors in causing legitimacy for the sharia accounting standards-setting process.

Islamic accounting standards are accepted by its followers due to the existence of *fatwa* as the main source in the due process of Islamic accounting standards. The perception from the interviewees present taken-for-granted acceptance for accepting *fatwa* as the main source. In addition, since *fatwa* has become the main source to be interpreted in accounting standards, without *fatwa* the due process and procedure of Islamic accounting standards will not be run and would be illegitimate. Thus, the procedural acceptance and taken-for granted-acceptance of *fatwa* identified in this section is the acceptance of Islamic accounting standards. The coexisting relationship between taken-for-granted and procedural legitimacy due to *fatwa* is represented through both cognitive and evaluative reasons in the development of Islamic accounting standards.

In addition to, the role of Islamic principles and *fatwa*, it is essential to understand the role of Islamic actors in the sharia accounting standards process. The following section will explain the legitimacy due to role of Islamic actors.

6.4.2.2. The role of Islamic actors

The views of Islamic actors in accounting standards-setting are well evaluated by most of the interviewees, especially in the development of sharia accounting standards. The role of Islamic actors in this section is described through the awareness of the structural positions of sharia standards setter. The awareness towards actors is identified through these actors' involvement in the development of sharia standards-setting, and the reasons for accepting the actors as an authorised institution.

Structurally, sharia accounting standards are developed by different standards setters from conventional accounting, namely DSAS. The role of DSAS as a standards setter is evaluated and recognised by interviewees as the leading actor of sharia standards-setting process. The need for an authorised institution for sharia transactions is acknowledged by interviewees through the awareness of legitimate actors (such as IAI and DSAS) in the development of sharia standards. As previously described in the professional section, the actors in the field of sharia accounting standards and conventional standards development are different. The authorised institution of conventional accounting standards is DSAK, whereas the authorised institution of sharia standards is DSAS. DSAS is an important actor which is a recognised institution in the development of sharia accounting standards.

The recognition of DSAS as the authority of sharia standards-setting is described below:

> "Specifically, in Sharia accounting which is somewhat unique as it is seen from its accounting principle, the fulfilment of sharia principles becomes the main factor that is intensely highlighted. Therefore, when we engage with sharia accounting, we will ascertain whether or not the recording styles of sharia accounting in Indonesia have met the sharia principle itself. The meaning is that from the point of DSAS affiliation, there must be a representative from National Sharia Board (DSN). Furthermore, when the standards require being legalised, it should be approved by the National Sharia Board. Then I consider the process of developing has been identified as adequate." (G.6)

As part of a professional institution, DSAS is a legitimate institution of sharia accounting standards. According to G.6, the recognition of DSAS as a legitimate institution of sharia standard setting is because of DSAS' position under IAI. The IAI is described in the previous section as an important actor in the conventional standards-setting process. The logic of actors in the conventional standards-setting process in Indonesia is then transmitted into sharia accounting standards-setting. The reasons why DSAS is a legitimate actor show the willingness of stakeholders to accept, apply and follow sharia standards. However, it is interesting to note that while interviewees described the importance of following DSAS as a legitimate actor, in real contexts the situation is actually unique, as is explained below:

> "Specifically, in Sharia accounting which somewhat is unique as it seen from its accounting principle, the fulfilment of Sharia principles becomes the main factor that highlights intensely. Therefore, when we engage toward sharia accounting, we will ascertain whether or not the recording styles of Sharia accounting in Indonesia have met the Sharia principle itself. The meaning is that from the point of DSAS affiliation, there must be a representative from National Sharia Board (DSN). Further, when the standards require being legalised, and the fulfil the sharia context, it should be approved by the National Sharia Board. Then I consider the process of developing has been identified as adequate." (G.6)

The uniqueness of sharia accounting standards by DSAS is due to the characteristics of sharia. The interviewee described the necessity for sharia accounting standards to meet sharia requirements and principles. To achieve this objective, the interviewee described the involvement of sharia actors in the standards-setting process by DSAS, namely DSN-MUI as a legitimate actor of sharia decisions. The awareness of the structural position between DSAS and DSN-MUI is due to the existence of religious actors. Thus, the legitimacy reasons are identified through structural legitimacy.

Accordingly, the background of DSAS members are well evaluated by interviewees represented from a different background of occupation.

> "It is like all my statements; the regulator is always invited to join the standard setting process. They have the power to regulate, and they also have a vision and mission to grow the industries. Thus, they must be engaged in developing financial reporting standards. *As we see that Indonesia Council of Ulema (MUI), National Sharia Board (DSN), they are also an integral part in the process of formulating sharia accounting standards* which is related to Islam or sharia product." (AU.3)

“All representatives of DSAK and DSAS are interested. Moreover, in the accounting standard setting process that is run by DSAK should have delegations from the government, OJK, central bank, taxation authority and other business community as well as the professions. *Those are the parties that have interests in accounting standard setting process, including DSN-MUI and sharia banks in DSAS*.” (AU.4)

“Indeed, and I see *they are represented by Ulema or Islamics academics and also by Sharia National Board or MUI.* Even in the case of banking, that Indonesian Bank and OJK have their sharia division guiding or driving an interest so that the standard set can be relevant to their need.” (AC.1)

“The difference between conventional and sharia is firstly that both differ in terms of the interested parties. *Conventional accounting does not have DSN, but it has another department such as ex-officio of OJK, Bank of Indonesia, practitioners, academics and IAI. Then sharia accounting has DSN for their capability in sharia contexts*. Secondly, conventional accounting fully adopts IFRS. As for sharia, it sets standards of IFRS and AAOIFI and coincidentally the director of the sharia accounting standard board is part of AAOIFI”. (G.4)

“The parties are those who have interests, and the most interested parties are the industries or the practitioners or sharia financial institution. Moreover, for *Murabahah* transaction, the most interested party is the bank, and sharia insurance company is for sharia insurance. Moreover, *Aamil* is for *Zakat*, *Infaq* and *Shodaqah*. *Those parties are interested, so they are very influential. It is normal. In addition to them is the regulator, and it is the financial service authority or OJK,;formerly it was Bank of Indonesia. OJK plays a role as the regulator, as it has concerns on sharia financial industry development so that financial accounting standard can support it maximally. Another party included* in the regulator is the National Sharia Board or DSN-MUI as they also have their concerns.” (G.9)

“In Indonesia, accounting standard setting is created by the special department under Indonesian Institute of Chartered Accountant. *This accounting institution* *formed a special board, namely sharia accounting standard board (DSAS). Moreover, what is the unique from this board is that it is comprised of three or four groups that represent stakeholders. The first group is Indonesia Institute of Chartered Accountant or IAI, the second is government institutions such as Bank Indonesia (Bank of Indonesia) and Financial Services Authority (Otoritas Jasa Keuangan), the third group is industry, and the last comes from institution namely National Sharia Board / DSN (Dewan Syariah Nasional)*" (SI.1)

According to the above opinions from the audit industry AU.3 and AU.4, regulators G.4 and G.9, academics AC.1, and Sharia Institution SI.1, all have a similar recognition of the actors involved in the standards-setting process both in sharia and conventional standards in Indonesia. Generally, the interviewees recognised the role of different actors involved in conventional standards-setting, such as regulators (OJK/BI), industry and accountants. In sharia accounting standards-setting, the actors are slightly different and unique with the involvement of DSN-MUI.

Besides the actors involved in standards-setting, another reason associated with actors refers to DSAS' structural position. Most of the interviewees above recognised the role of different actors as a member of DSAS. The interviewees recognised that DSAS members come from different institutions. This description is consistent with IAI's organisational rules which describes the role of representation in becoming a member of DSAS and DSAK. The presence of sharia actors in sharia standards-setting is a distinguishing factor between DSAS and DSAK.

The recognition of DSN-MUI as a recognised actor involved in sharia accounting standards is acknowledged through statements by AU.3 that DSN-MUI is an unseparated institution of sharia accounting standards-setting. The understanding that DSN-MUI is a legitimate actor besides IAI is explained by G.4 through the recognition of DSN-MUI as a competent institution in the domain of sharia. The role of DSN-MUI as a recognised actor in the sharia development exists because of the nature of sharia accounting standards itself, specifically that sharia accounting standards should reflect Islamic values and principles.

The recognition of IAI as a legitimate institution and its relationship with other institutions become interesting when attempting to identify the legitimacy of accounting standards development. For instance, the research found that the motives of DSN-MUI should be involved in the development of SAKS, due to the awareness that IAI as a professional institution should follow more competent institutions, namely DSN-MUI. The description that IAI should follow a more competent institution is described below:

> "It is because of their professionalism. It means that however, we can find an accountant, but who is deserved to set the standard? So, there is a provision it is we must coordinate with IAI, or that is to say that *we must hand a thing to its expert. Therefore, if we talk about sharia capital market, for example, we must discuss its sharia aspects and to whom will we coordinate? The National Sharia Board or DSN as they have the capability in question. We* consult them to know whether or not the transaction is halal and meets sharia rules, and if it breaks any sharia rule, we request their explanation for it. This situation also goes for accounting standards; we will be communicating to IAI as it is a standard setter in Indonesia." (G.4)

> "Well, if we have *a crucial case, we must follow the instruction of the competent institutions, and of course in Sharia aspects, MUI is included in those institutions.* Moreover, I think this is one of our ways and that we hand the matter to its expert, and for the case of sharia, we either hand it to Islamic universities or MUI, and also some sharia practitioners in some countries as a comparison." (AC.3)

> "*We (DSN) surely have a significant role in sharia aspects, and we are the only one who has the authority*. However, for the regulation aspects, it is handed to the regulator, and the common aspects, we give it to the industries and the accounting aspects belong to the accountant. Therefore, nowadays each part has its own clear role to play." (SI.1)

> "*As long as it is related to sharia terms, yes, we can say that so. Although they might not be from an accountant's background and given the terms of such manners, they agree to* it. Take a look at the history of AAOIFI, in its early times; it was torn apart between those who hoped for a newly accounting standard that is purely Islamic and those who stand by the western standard. So, which one would win the debate? The second one with their reasons and that as this was an unfortunate need." (P.3)

The awareness of expertise capability is mentioned by interviewees as an interesting factor in recognising legitimate actors. For example: accounting standards should, in their view, be developed by legitimate actors (IAI) and IAI should cooperate with other institution, namely DSN-MUI. The interviewees well understood the role of DSN-MUI, including the development of sharia accounting standards. According to G.4 who is from a government institution, it is essential to entrust matters with the experts. For instance, the trust felt towards accountants concerns accounting matters. However, the situation would be different in the context of sharia accounting standards, where IAI should consult DSN-MUI. G.4 stated that DSN-MUI should be consulted and trusted since it has expertise in sharia. DSN-MUI decides whether or not business transactions are in accordance with sharia principles and laws. The trust and the act of consulting shows the importance of DSN-MUI. Thus, this reason presents taken-for-granted legitimacy due to religious beliefs.

The rationalisation of DSN-MUI as legitimate actors is also mentioned by preparer P.3 in recognising DSN-MUI as a non-accountant actor in sharia standards-setting. However, in this context the preparer believed and trusted the involvement of DSN-MUI in sharia accounting standards. P.3 understood how essential the role that DSN-MUI played in sharia standards-setting. Moreover, the existence of DSN-MUI in standards-setting is compared by the interviewee with the existence of AAOIFI as an international standards setter for sharia accounting standards. The discussion in AAOIFI occurred due to a different interpretation between purely developing sharia accounting or labelling western standards as sharia standards. With Indonesia's decision to use western standards, the DSN-MUI's responsibility has become even greater since it has to check and assist the process of developing sharia standards to match sharia principles and values.

The recognition of DSN-MUI depicts DSN-MUI as a knowledgeable institution. The capability of DSN to address issues related to sharia context clarifies that DSN-MUI becomes a needed institution as described AC.3 above. Accordingly, the act of clarifying and asking about DSN MUI shows the legitimate position of DSN-MUI due to "knowledge" reasons. The "knowledge" reason is described by SI.1 above through the recognition that each actor has their own technical capability and knowledge of a specific issue related to their expertise. Accordingly, accountants and regulators have different occupation and expertise. In terms of the context of sharia in Indonesia, the role of DSN-

MUI is important due to its knowledge and understanding of religious matters. Therefore, it shows taken-for-granted legitimacy due to Islamic actors.

Besides the reason for knowledge competency, there is also another reason for accepting DSN-MUI as a legitimate actor; there is a need for competent actors who understand religious matters, as is described below:

> "Well, yes there are some differences. From the side of its actors, sharia accounting has a specialist with their strong religious background. *Therefore, in sharia accounting standard setting we do not require those who do not have strong religious courses.* Thus, the terms of developing standards between sharia and conventional are likely to be different, as sharia accounting standards board should have knowledge related to religious aspects." (AC.3)

> "I think that on its internal side, we can say that those who deserve to be in sharia accounting standards board is those who understand accounting, sharia and religious matters […] Therefore, *having such capability for sharia context is so crucial as if we do not have it, it will lead us into the dangerous problem that is deciding a thing related to sharia without using any sharia rules*. Furthermore, it can result in a problem for financial reporting users." (AC.6)

Both AC.3 and AC.6 stressed the importance of actors who could understand both accounting and religious matters. The combination of these two factors should exist in the development of sharia accounting standards. The sharia standards-setting not only deals with accounting matters but also with sharia matters. Therefore, DSAS members are a combination of professionals who come from various institutional backgrounds, including religious actors from DSN-MUI.

Previously, the development of sharia accounting standards was cooperation between interested actors. Thus, the position of DSAS as a legitimate institution under IAI is the principal reason for accepting sharia accounting standards. However, this acceptance exists with the provision of approval from DSN-MUI as mentioned below:

> "Those authorities must be involved in its standard setting process. It is shown from its members that consist of multi-disciplinary people such as the academics, authorised institution and practitioners. Moreover, IAI has represented the authorised institution having a relationship or concern towards sharia business

> development. *Therefore, when IAI has published a standard, it will be coordinated formally, for example; IAI will make a legal letter to DSN before they publish the standard. They will also ask ano authorised institution for their opinion. Nevertheless, they have been included as IAI's team*." (G.5)
>
> "Well, so when there is a proposal from Indonesian Bank or practitioners, we will discuss or consult it with DSN, to know the *fatwa* for its transaction. Is it right or wrong on *Fiqh*? Moreover, once it is correct, we can start creating a standard (continued). *Firstly, we asked for its fatwa to DSN, and soon after we have it, we propose it to IAI*." (G.8)
>
> "Of course, we have it always. Why is it so? *It is because we have a representative from MUI, once we want to set a standard for a product, we consult it with them beforehand.* Thus, we always discuss with them, and they are eager to share what is behind the fatwa." (AU.3)
>
> "Yes, it may be so, since, in some debatable issues, *IAI will consult with DSN, then DSN will answer by saying that it is allowed. Then IAI will decide based on DSN's suggestion*." (SAS.5)
>
> "Well, normatively, the different is just the same. However, when it goes into the content, the thing becomes different, why? As we discussed before, *DSAS will make reference to DSN-MUI*." (SAS.4)

The act of recognising and accepting DSN-MUI as a legitimate institution in sharia accounting standards is expressed across a group of interviewees from the government, audit institution and sharia accounting scholars. Most of the interviewees (AU.3, SAS.5 and SAS.4) recognised the role of DSN-MUI through the awareness that DSN-MUI is an authorised institution. The awareness of DSN-MUI authorisation is characterised via the recognition of DSN-MUI assistance to DSAS in the development of sharia accounting standards. In addition, the willingness from the Board (DSAS) to ask DSN-MUI also indicates the acceptance of DSN-MUI by regulators.

In addition, DSN-MUI also participate during the material discussion of sharia accounting standards. The action of requesting formal letters is objectively to assure that the proposed standards is not violate sharia principle. This reason described by G.5 is the need for

DSAS to coordinate formally with DSN-MUI. The act of coordinating formally and issuing legal letters to DSN-MUI shows DSN-MUI's recognition as a legitimate actor in sharia standards-setting. Interestingly, although members of DSAS are represented in DSN-MUI, DSAS still needs to consult DSN-MUI and obtain its legal opinion regarding the proposed standard.

According to G.5 and SAS.4, the act of referencing and requesting towards DSN-MUI means that DSAS is in a dependent position in terms of sharia standards-setting process. The dependence of DSAS towards DSN-MUI also establishes DSN-MUI as a legitimate actor not only in a sharia context but also in terms of the sharia standards-setting process in Indonesia. Additionally, DSN-MUI is not only recognised by DSAS as a legitimate actor but also by other actors such as industries and regulators. The role of DSN-MUI has become dominant since DSN-MUI is the sole actor to believe and trust with regard to *fatwas* in the sharia context.

Accordingly, the actions of DSAS to coordinate formally with DSN-MUI in acquiring legal approval from DSN-MUI demonstrates IAI's acknowledgement towards DSN-MUI. Besides the procedural motives between DSAS and DSN-MUI, taken-for-granted legitimacy exists in this context whereby DSAS recognises the role of DSN-MUI as a legitimate institution in the process of sharia accounting standards development.

DSN-MUI is considered as the sole actor in *fatwa* development and its role is acknowledged among stakeholders. Therefore, it is essential to understand the logic of how important the role of DSN-MUI is to the sharia standards-setting process. Below is a description related to the importance of DSN-MUI in sharia standards-setting:

> "*It is not just an influence. The sharia accounting standards would be set if MUI had stated the fatwa for the product. So, before that, there will not be any accounting standard. Therefore, it is not just a significant influence, but it is a foundational part of sharia accounting standard*" (AU.3)
>
> "Actually, *DSN's function is just to give direction*. Moreover, for what does *fatwa* stand? That makes accountant in DSAS doing a specific step." (AU.4)
>
> "It was *the National Sharia Board (DSN), they play a great role, and of course, it is positive*. Thus, when we stuck in dilemmatic circumstances, I believe that the sharia Board will be involved as they do not want the standard that is set to break *Fiqh* laws. *Then we follow whatever is decided by the board (DSN-MUI)*." (P.3)

AU.3 perceived the role played by DSN-MUI with regard to the sharia standards-setting process as a vital and fundamental part of sharia accounting standards in Indonesia. The interviewee understood the significant role that DSN-MUI has as the only institution of sharia accounting standards development. The position of DSN-MUI is considered as equal to other actors such as IAI through DSAS. Accordingly, DSN-MUI does not want the proposed standards to break or violate Islamic law. Therefore, it is essential for DSAS to follow DSN-MUI's decision regarding *fatwa*s of Islamic transactions as described by AU.4 above. Moreover, the role of DSAS is to interpret DSN-MUI's *fatwa* into accounting standards.

Since DSN-MUI became a prominent actor, the recognition towards DSN-MUI is not only triggered by the structural reason for DSN-MUI representing sharia actor(s), but also through the recognition of DSN-MUI's ability to develop *fatwa*. Below is the recognition of DSN-MUI ability to develop *fatwa*:

> "Usually, DSN has the capacity to explain opinions about the substance of a transaction. […] So that some of DSN members are accountants and some are not, or from sharia experts. Moreover, its process is that we show the transaction will be set as well as its nature. *Then DSN explains it from the sharia view. Moreover, if in conventional accounting, we explain its recording, and then DSN gives its opinion based on Fiqh provision and right after that IAI will interpret by deciding its accounting*. That is it." (G.4)

> "Well, *I believe that they are not the actor or player, but the authority to make fatwa in Indonesia is given to the Indonesian Ulema Council or MUI. Moreover, MUI is the DSN, so their role is indeed publishing fatwa*." (G.3)

> "For sharia accounting, DSN, with their *fatwa* become the most interested and influential party." (G.7)

> "No, I do not think they do so. *Because DSN is an authorised institution to produce fatwa, we know why they do such steps. We discuss with them to understand their reasons, not to challenge them.*" (AU.4)

> "Actually, if *DSN-MUI is the main source or original reference*." (P.2)

The recognition of DSN-MUI as a legitimate actor to produce *fatwa* can be seen through the relationship between DSN-MUI and DSAS in the sharia standards-setting process. DSN-MUI's role is described by G.4 as a collaborating actor in sharia accounting standards development. The collaboration exists because DSN-MUI is recognised as an authorised actor of *fatwa* development and a source of reference as described by G.3 and P.2. As a result, it is pivotal for DSN-MUI to maintain its status among interest parties as a legitimate institution for sharia accounting standards-setting process.

The recognition and evaluation of DSN-MUI presents moral (structural) legitimacy and taken-for-granted legitimacy due to the sharia context. In addition, the logic of legitimacy contributing towards DSN-MUI legitmacy is through cognitive understanding of DSN-MUI as a competent institution. The move to accept and recognise DSN-MUI as a sole actor by trusting and referencing sharia standards-setting process shows taken-for-granted legitimacy of DSN-MUI. AU.4 described above DSN-MUI as an authorised institution for the development of *fatwa*; as such, it is vital to understand the underlying reasoning of DSN-MUI in developing *fatwa* rather than challenge its authority. Taken-for-granted reasons for accepting DSN-MUI become very clear when stakeholders recognise the role of DSN-MUI rather than questioning its authority.

As an authorised actor in accounting standards development, DSAS seeks legal support from DSN-MUI to legitimating its sharia accounting standards development via requesting cover letter from DSN-MUI.

> "For a covering letter and assurance that it agrees with the sharia principle. Even after final legalisation by DSAS, we will still send the draft to DSN-MUI. Therefore, *fatwa* can be considered as our main reference. If we did not have a covering letter from them, we would not be able to publish the standard even if DSAS has endorsed it. It is our due process. We are very dependent on DSN-MUI. We have even had a case for this matter that we had a standard for Zakat, but we did not have its Fatwa yet. Zakat might not be included as a DSN-MUI concern. So when we have published the standards, we asked for a sharia opinion to DSN-MUI, but since it did not have *fatwa*, it took us a long time to set it, it might be about one or two years long." (G.9)

> "The regulator makes a proper regulation consideration based on their capabilities (continue). Then, after completing the draft of sharia accounting standards, the regulator which is DSAS comes to Shariah National Board to check their work and make sure it does not violate the sharia law. Subsequently, we give them the Sharia conformity letter. This flow to develop accounting regulation exists due to

our prior experience that created rigid discussion over accounting regulations. We cannot be asked to make a regulation as our preferences are classic Islamic books. So, we asked the regulator to make a clear regulation for Islamic transactions." (SI.1)

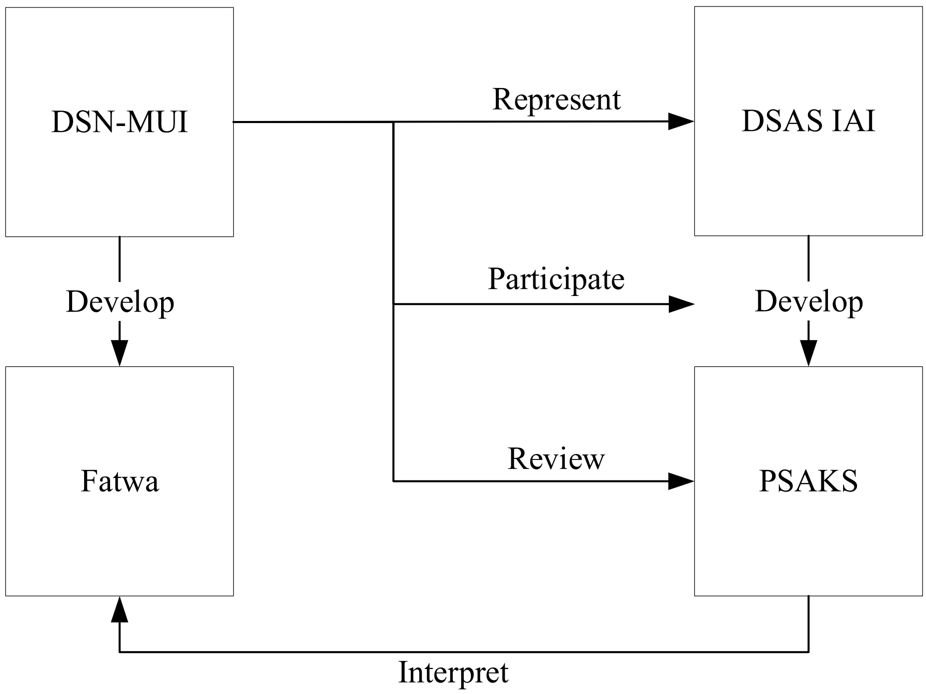
According to G.9, DSAS needed cover letters by the DSN-MUI to ensure that every standard developed is in accordance to sharia principles. The interviewee recognised that the cover letters and approval from DSN-MUI would help DSAS make the standards more official. The recognition role of DSN-MUI as a legitimate actor in sharia standards exists due to DSN-MUI's role in developing *fatwa*.

The confirmation letters described by SI.1 are similar to G.9's cover letters that DSAS asked from DSN-MUI in order to legalise their standards and to verify whether the proposed standards violated sharia law or could represent sharia law. The logic behind the letter for DSN-MUI by DSAS is clearly explained as a recognition of DSN-MUI as a legitimate actor in sharia accounting standards development. DSN-MUI is also capable of verifying that particular activities comply with sharia principles. In addition, the approval by DSN-MUI in the development of accounting standards aims to reduce long discussions between interested actors during the sharia accounting standards-setting process. Therefore, DSN-MUI is the only reliable and suitable actor to approve sharia standards based on *fatwa*.

Even from the initial process of sharia standards-setting, DSN-MUI was already involved through its representation in DSAS. In addition, in the process of discussion, DSN-MUI also became the interested actor involved. By issuing the standards, DSN-MUI participated as legitimate actors in approving standards and assessing whether they violated or were in accordance with sharia. With the decisions and confirmation letters from DSN-MUI, DSAS has a legitimate position in issuing sharia standards.

It is essential for stakeholders and DSAS as a legitimate institution to coordinate with DSN-MUI with regard to sharia accounting standards. Sharia accounting standards are accounting standards where the developing process is more complicated due to procedural reasons and the actors involved. The legitimate actors are not only from one single institution, namely DSAS; they also belong to DSN-MUI. It is evident that sharia accounting standards-setting in Indonesia belongs to DSAS but, in practice, during the process of development, DSAS coordinates and cooperates with DSN-MUI as a legitimate actor of *fatwa* development.

FIGURE 6.2. THE RELATIONSHIP BETWEEN DSAS AND DSN-MUI IN THE SHARIA ACCOUNTING STANDARDS-SETTING PROCESS



6.4.3. Cognitive biases due to professional considerations

This section presents cognitive biases due professional considerations as the cause of legitimacy in the accounting standards-setting process in Indonesia. The cognitive biases present taken-for-granted acceptance as due to professional characteristics such as the prejudice of accountants in the development of accounting standards. For instance, the recognition of IAI as a legitimate institution by other stakeholders related to accounting matters by discussing and consulting with IAI. Below is the explanation regarding cognitive biases due to professional considerations causing legitimacy (taken-for-granted) in standards-setting process:

> "for up to now, IAI is still trusted by the parties. The reason for trust means that since IAI is considered as a credible profession association and the fact that they are, it is fair enough for us, the academics and all of society, to believe in them to held and set accounting standards." (AC.1)

“Well, I think that *we all still trust IAI*, the Indonesian Institute of Chartered Accountant to fully *run their professional function*” (AC.1)

“There is a simple answer to that question; it is because IAI is a profession which is always professional in accounting, and such ability is crucial for accounting standard setting.” (AC.6)

“DSAS and DSAK have their regulation, they have rules, and their first rule is being independent, and the second is having an objective. The public trusts this institution, so they have to be free from any intervention.” (G.5)

“They are fair towards various actors. Objective” (G.1)

“They believe that *IAI can give a proper solution* for them which is related to standard or guidelines, etc.” (G.1)

“When the industries trust us, and whatever we set and publish, they follow it. It means that they do believe in us, in IAI. Therefore, due to that trust, IAI has the credibility to do that function. So, if it is asked “do the industries believe in IAI?” its answer is definitely “yes”.” (G.2)

“Regulators do believe that it is the only institution in Indonesia which is appropriate to rely on and none can be compared with them.” (G.8)

“That *IAI is perceived as having some capability*.” (AU.2).

“Well, because the one who knows all financial accounting cases well is indeed the accountant. The accountants have *the knowledge, the history and also well-established organisation*.” (AU.3)

“As an accounting standard must be independent, its setter must also be independent and can represent all business stakeholders. So, if the case were given to the government, it would not be that independent. I think it is fair enough to choose IAI as an authorised institution to set an accounting standard, for they are *independent* and can do all things above.” (AU.4)

“I think it is due to their experiences, expertise and ability. Their capacity is qualified for an institution. Nevertheless, they are not a government institution. IAI is just an association of the accountants that make a product that is then labelled by the regulator. So, it has the force of law, and makes the product

> stronger. So, it is *due to their competencies, expertise, and also their independence from any interventions*." (P.1)
>
> "Yes, they do. Since they are the rule-maker, *they learned accounting and got to know its philosophy."* (P.3)

The qualities expressed in the views above, including fair, knowledgeable, expertise, trust, qualified, running their professional function, credible, independent, objective and having historical background, constitute a cognitive description of IAI. These views on IAI indicate recognition of IAI as a legitimate institution. It shows taken-for-granted logics as the impression of IAI. The cognitive biases in this context arise when the interviewees, through their pre-reflexive motives, recognise the imperative role of the accounting profession in accounting standards development.

In Indonesia, cognitive biases towards the accounting profession (IAI) first appeared during early establishment of the accounting profession by the enactment of Government Act Number 34, 1954 regarding the use of "accountant" title. This regulation marked the establishment of accounting profession in Indonesia and subsequently accountants were perceived as important actors not only in regulatory spaces but also in society. Through this, the perception towards the accountant and the need towards the accounting profession showed the successful approach taken by the accounting profession in establishing and maintaining their role as a needed institution in society. Subsequently, legitimacy in accounting standards development is not only caused by moral reason but also by the logic regarding the accounting profession's role in standards setting process, thereby causing legitimacy.

6.4.4. Cognitive biases due to religious beliefs

In addition to cognitive biases due to professional considerations, the cognitive biases also appear to be based on religious beliefs, especially in the context of sharia accounting standards-setting. Understandably, the religious context is the primary source of sharia accounting standards. Cognitive biases appear to be identified through the importance of sharia compared to the accounting context. Sharia accounting standards have been identified to reflect sharia laws which are represented through *fatwa*. The recognition of the importance of sharia law is reflected in how vital sharia values are compared to conventional values, as is described below:

"In sharia we have two pillars; first, we have to refer to international accounting standards, then it can be ignored if it does not match with sharia compliance. So, both are equal in necessity. *If I am asked which one is more important? Sharia compliance is*. […] If conventional or International standard accounting is applied, once it does not reflect with Sharia principles, we will not adopt it." (G.3)

"*We will give more priority to the sharia course instead of the accounting course*. Moreover, we will not set its accounting standard if it does not meet the *Fiqh* rule." (G.8)

"So, *which one is given more priority? Well, I see that accounting values are weaker here*. Moreover, when I teach my students, I always say to them that accounting standard setting can be reduced from its theoretical or conceptual framework if we do not find any problem in it. However, if find it, we must leave accounting values. The dominant issue is an economy problem, and nowadays problems regarded to *sharia accounting results in sharia values winning over accounting values*." (AC.8)

The cognitive reasons above describe the important sharia principle in the development of accounting standards and shows the taken-for-granted legitimacy of sharia sources. The sharia source is said to be more important, and that sharia compliance is more important than accounting compliance. The recognition of cognitive biases also appears when sharia principles are given more priority compared to accounting context. Moreover, accounting context is also described as a weaker context against sharia.

In addition, cognitive biases are described through the recognition of the role of DSN-MUI or Islamic actors:

"Well, *if we have a crucial case, we must follow the instruction of the competent institutions, and of course in sharia aspects, MUI is included in those institutions*. Moreover, I think this is one of our ways and that *we hand the matter to its expert, and for the case of sharia, we hand it to either Islamic universities or MUI or* also some sharia practitioners in some countries as a comparison." (AC.3)

"We (DSN*) surely have a significant role in sharia aspects, and we are the only one who has the authority*. However, for the regulation aspects, it is handed to the regulator, and as for the common aspects, we give them to the industries and the accounting aspects which belongs to the accountant. Therefore, nowadays each part has its clear role to play." (SI.1)

Cognitively, the role of DSN in the sharia standards-setting process is essential. DSN-MUI is considered an expert in sharia contexts. In the context of sharia accounting standards, accounting should follow expert decisions regarding sharia transactions. Interestingly, each role has its specialisation, including DSN-MUI as an actor of sharia regulation.

In addition, cognitive biases are also present in the context where sharia accounting standards are developed by actors who have a religious background:

> "Therefore, when IAI has published a standard, it will be coordinated formally, for example, *IAI will make a legal letter to DSN before they publish the standard. They will also ask an authorised institution for their opinion. Nevertheless, they have been included as IAI's team."* (G.5)

> "Well, so when there is a proposal from Indonesian Bank or practitioners, *we will discuss or consult about it with DSN, to know the fatwa for its transaction*. Is it right or wrong on Fiqh? Moreover, once it is correct, we can start producing its standard. Moreover, happily, Indonesian Bank had done so before they introduced their regulation into the market. Firstly, we asked for its fatwa to DSN, and soon after we got it, we proposed it to IAI so as it could ease them in setting their accounting standards, although there are some in DSN who became part of DSAS-IAI." (G.8)

As described above, DSN-MUI understands that it has a strong religious background. This acceptance factor also presents taken-for-granted legitimacy as due to DSN-MUI as a stronger institution of the standards-setting process. The act of accepting DSN-MUI by stakeholders is also represented through recognition of DSN-MUI as a consultant in sharia contexts:

> "Therefore, when IAI has published a standard, it will be coordinated formally, for example; *IAI will make a legal letter to DSN before they publish the standard. They will also ask to authorised institution for their opinion. Nevertheless, they have been included as IAI's team."* (G.5)

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As mentioned above, the status of consultant is vital for DSN-MUI in order to be seen as a legitimate institution in the eyes of its followers. The followers are willing to ask and respond to their concerns. DSN-MUI are present on the board member of DSAS. In addition, DSN-MUI has a great role to legalise DSAS standards by issuing the approval/cover letter. Therefore, this action relying on DSN-MUI shows acceptance of DSN-MUI in the standards-setting process.

Another reason to accept DSN-MUI as a legitimate actor is due to representation and its willingness to solve problems:

> "Of course, we have it always. Why is it so? *It is because we have a representative from MUI, so once we want to set a standard for a product, we consult about it first with them.* Thus, we always discuss with them, and they are eager to share what is behind the fatwa." (AU.3)

> "Yes, it may be so, since, in some debatable issues, *IAI will consult with DSN, then DSN will answer by saying that it is allowed, then IAI will decide it due to DSN's suggestion*." (SAS.5)

> "Well, normatively, the difference is just the same. However, when it goes into the content, the thing becomes different, why? As what we have discussed before, *DSAS will make reference to DSN-MUI."* (SAS.4)

Essentially, the role of DSN-MUI as a legitimate actor of sharia accounting standards goes beyond the understanding that members of DSN-MUI are also members of DSAS, and includes the role of DSN-MUI in providing solutions. Through their product i.e. *fatwa*, it is undeniably a vital source and point of reference in sharia accounting standards development. Without *fatwa*, sharia accounting standards would not exist and without DSN-MUI, DSAS' role would seem illegitimate.

Evaluatively, in the context of conventional accounting standards in Indonesia, taken-for-granted legitimacy emerges due to cognitive biases towards professional considerations compared to sharia standards which refer to religious background. Taken-for-granted legitimacy differs from the conventional accounting standards-setting process where the actors identify through professional considerations. However, in sharia standards-setting, legitimacy appears due to religious beliefs. Cognitive biases due to religious beliefs arise when taken-for-granted legitimacy caused by religious context is identified through *fatwa* and Islamic actors. The development of sharia standards is the area of IAI through DSAS; interestingly, the role of DSN-MUI and its religious product is substantially important (through the involvement of DSN in the structural position of DSAS, in the process and developing sharia standards and to legalise the accounting standards). These reasons show that the cognitive biases of sharia standards are greater than professional considerations.

6.5. Discussion

This section discusses the findings of this research. The discussion is divided into two main topics discussing the main research question: the legitimacy dynamics between conventional and Islamic accounting standards, and the cognitive biases embedded in accounting standards development.

6.5.1. Legitimacy dynamics in conventional and Islamic accounting standards-setting

This study has argued that the legitimate perceptions of accounting standards-setting in Indonesia has been constructed based on the three main inter-linked factors, that is historical, due process and procedure, and also biases embedded in professional considerations and in religious beliefs. The historical background is identified as the first factor. The legitimacy of accounting standards-setting in Indonesia is constructed from different perspectives, which are interconnected and coexist from one reason to another. Following the historical background, the legitimacy of accounting standards-setting in Indonesia is also perceived through due process and procedure where moral legitimacy becomes a factor for determining a legitimate position of standards setter. The last reason for legitimacy is caused by biases embedded in professional considerations and religious beliefs.

The legitimacy of accounting standards setting in Indonesia is present via historical, due process and professional background. By understanding the nature of legitimacy of accounting standards in Indonesia, the stakeholders can understand the source and influential power in accounting standards development. Therefore, in the future, stakeholders can take this theme into consideration behind the logics of acceptance and power distribution between parties in accounting standards development. By following legitimised accounting standards, the financial reporting is developed based on correct instructions and thus affects the audit reports and helping the stakeholders to take decisions in the future.

The development of accounting standards is strongly connected with its historical background. The historical reasons for accounting standards-setting are identified through the historical perspective, where the legal and political context are both evaluated and understood as the source of legitimacy in accounting standards development.

The historical reason in the legitimacy of accounting standards-setting in Indonesia was initiated in the early period of accounting standards development such as through translation and convergence of PSAK standards. The translation period started when Indonesia began to establish capital market. The relation between capital market and accounting standards are strongly linked to the capital market. In the U.S, Levitt (1998) stated that the role of capital market regulator (SEC) is to protect investor, thus accounting standards become a key aspect for providing this protection. Subsequently, financial reporting is a vital element to ensuring the accountability of the capital market. The problem arises when financial reporting varies from one company to another. Hence, the need for accounting regulation is important to ensure comparability of financial reporting. Through accounting standards, capital market ensures the decision made by investor and stakeholder are produced based on firm foundation accounting standards, which are deemed as an important factor to increase accountability. Furthermore, the relationship between capital market and accounting standards is related to consequential legitimacy.

Consequential legitimacy also presents due to the evaluation of accounting standards provides “safety option and protection”. This reason is similarly identified by Durocher et al. (2007) in Canadian accounting standards-setting process; public involvement in standards-setting process relates to investor protection concerns.

The establishment of capital market and recognition of safety option in accounting standards development is then followed by the commitment to follow international standards, namely US, GAAP and IAS ones. After a period of international translation, there was a period IFRS convergence. The period of accounting standards in Indonesia began with the translation of international accounting standards, namely the US and GAAP standards. The evaluation considers that the US is one of the most prominent nations and a benchmark for Indonesia's accounting principles. Accordingly, the work of accountants itself cannot be distinguished from education systems due to its professional characteristics. Many prominent academics during the new order period (1966-1998) in Indonesia graduated from American universities. The recognition of US standards as a prominent benchmark and the role of early academics who graduated from US universities influenced the acceptance of US GAAP translation into Indonesian accounting standards.

This research has identified the structural position of FASB as the cause for accepting that US GAAP be translated into Indonesian standards. FASB has been evaluated as independent, professional and with a full-time working status. Based on stakeholder perspectives towards standards setters, cognitive reason emerges as the reason for following Indonesian standards in the period of translating the US. GAAP standards. Accordingly, Indonesia accounting standards has been developing through a process that follows US standards (US standards have been developed by competent institutions namely FASB). The acceptance of PSAK due to translation of international standards and the recognition of FASB structure both depict taken-for-granted legitimacy.

The legitimacy also appears due to IAS translation and the shift from US GAAP into IAS presents consequential legitimacy. The translation of IAS started during the 1990s. In this period, the development of accounting standards in Indonesia was specified as a commitment to increase the transparency and comparability of financial reporting. This period of IAS translation was marked as the initial period of globalisation, requiring that Indonesia align its standards towards international community. Thus, the shift from US GAAP and IAS presents consequential legitimacy.

In addition, the establishment of IFRS was a fundamental issue of legitimacy. Essentially, Indonesia choose convergence rather than adoption, which is the partial adoption of IFRS standards. The commitment to converge with IFRS shows cognitive (taken-for-granted legitimacy) as well as moral consequential legitimacy which focused on the context of due process, since IFRS' convergence had been applied without any substantial change.

The legitimacy (taken-for-granted and consequential) of accounting standards-setting is also discovered through political influence and commitment between Indonesia and the international organisation. The roles played by the International Federation of Accountants, IASB and the G20 were pivotal in endorsing the application of IFRS as international accounting standards. Indonesia's commitment to establish international standards began in the 1990s during the IAI Congress where it was decided that Indonesia should align its standards with IAS. The decision to align was also supported by Indonesia's position as a member of the G20 which wanted to substantially increase cooperation and to reduce differences among the member countries. It was part of the G20's objectives to increase transparency during the 2008 financial crisis. From a professional perspective, IAI is a member of IFAC, which requires its members to implement and commit to international standards. In addition, the role of IFAC is to serve the public interest and strengthen the accounting profession (Accountants, 2016).

With respect to this, Hassan et al. (2014) investigate the reason for IFRS adoption in Iraq. Arguably, in developing countries, in order to strengthen the economic situation, many are likely to face pressure from international global aid to adopt IFRS. Consequently, smaller and poorer economies would be subjected and dependent on a powerful global aid system (Hassan et al., 2014). Based on their research, Iraq and other countries in the region seeking aid from the World Bank and the IMF will be required by developed countries to meet their (international donors') demands for capital market and macroeconomic development and the implementation of more rigorous reporting practices including IFRS adoption (ibid).

In addition, regulations have become prominent tools to increase the legitimacy perspectives on accounting standards. This research identifies that the legal context in Indonesia caused taken-for-granted legitimacy in accounting standards development. Accordingly, the government regulations play a significant role in establishing accountants as prominent actors in the accounting regulatory space. The Capital Market Act, the Limited Liability Company Act and the *BAPEPAM* regulations are the central regulations that have described accounting standards in Indonesia. These three regulations are interconnected with each other to ensure that accounting standards-setting in Indonesia are developed by IAI.

Regulations in the Capital Market Act states that accounting standards should follow the general practice of reporting. More detailed descriptions (described in the explanation section) appoint IAI as a legitimate actor through statements that accounting standards should be based on IAI and other regulations customary to the capital market. In the Limited Liability Company Act, this regulation does not refer to IAI directly. However, the explanation section in Limited Liability Company Act describes financial accounting standards as accounting standards that are established by accounting organisations recognised by the government of the Republic of Indonesia. In addition, *BAPEPAM* regulations specifically indicate DSAS and DSAK IAI as authorised institutions in the standards-setting process. Respectively, in terms of the IAI infrastrcuture, IAI is considered as the main organisation controlling and supporting DSAK and DSAS. As such, stakeholders recognise that IAI is the main and legitimate organisation for accounting standards development, not DSAK or DSAS.

The role of legal contexts in causing legitimacy was also identified by Durocher et al. (2007), who identified the role of government and regulatory agencies for supporting the Canadian Institute of Chartered Accountants through legal legitimacy. Accordingly, legal legitimacy is related to the belief that the government supports the standards setter (Durocher et al., 2007). Thus, the legal legitimacy of the Canadian Institute of Chartered Accounting was a relevant category for exploring legitimacy factors. Furthermore, this study found that through the legal perspective of legitimacy, the standards-setting process in Indonesia was legally supported by the government through regulations that recognised IAI as both directly and indirectly involved in the development of accounting standards.

IAI has been recognised as a professional institution by the government and from a standards-setting perspective, and no other professional institutions can replicate what IAI has done in accounting standards development. Furthermore, due to the lack of proper regulations to indicate financial reporting acts, perspectives on accounting standards in Indonesia remain the same towards IAI as an unchallenged institution. Regulations have become a powerful tool to regulate as well as to influence opinions.

After the historical background, one of the main themes causing legitimate reasons is through due process and procedure. The due process is evaluated through moral legitimacy where procedural is present through positive diction. The evaluation of DSAK/DSAS standards-setting due process, according to the interviewees, shows a degree of variation in acceptance regardless of the interviewee's group. The characteristic of normative evaluation evaluates accounting standards-setting due process as a due process with “a standard goal” and a process that is identified as a “fine” process. In addition, procedurally, the running process of developing standards was described as "very good", "runs very well", "done precisely", "very qualified", "magnificent", "conforms to governance", "follows the right procedure", "quite good" and "proper due process". The perception related to the time of developing accounting standards was evaluated as adequate and relatively time-consuming to complete. Besides normative procedural perspectives, procedural legitimacy also emerged due to public engagement or stakeholder representation of developing standards. More importantly, public hearings were evaluated as pivotal and causal reasons for acceptance as well. One must bear in mind that consequential legitimacy relates to the fact that "the technical property of outputs are socially defined and do not exist in some concrete sense that allows them to be empirically discovered" (Meyer and Rowan, 1991, p.55, cited in Suchman, 1995, p.580). In addition, procedural legitimacy is also relates to technical competence (Richardson and Eberlein, 2011). Correspondingly, "due process" procedural exists in more formal contexts related to constitutional and administrative law (ibid). In addition, Durocher et al. (2007) noted that the Canadian accounting standards due process emphasised the definition of procedural legitimacy as general and open approaches of developing accounting standards.

In addition, the recognition of DSAK and DSAS due process by stakeholders also reflect the logic of appropriateness (March and Olsen, 1989; Young, 1994). Language has become an important factor in defining agenda formation in the construction of standards-setting process to be seen as appropriate within regulatory spaces (Young, 1994). Additionally, March and Olsen (1989, p.160) examined the logic of appropriateness in political institutions which are acts of defining particular activities and routines based on collective actions in the past to transform into current events. By the time, political institution embraced the new situation; the rationalisation of the political institution with the new event is to associate the current event with the particular rationale in the past or situation that already exist in the past (March and Olsen, 1989, p.160). In the context of the standards-setting process in Indonesia, the interviewees described and associated positively the process of accounting standards-setting due process. The justification for associating the problem with the context of standards-setting emerged in positive dictions, and normative reactions towards accounting standards-setting process are related to their past experience of the accounting standards-setting process.

In addition, this research also identified that due process and procedures of standards-setting in Indonesia follow what the interviewees think as an international standards-setting due process. The actions by DSAK and DSAS as standards setters in developing standards was recognised by stakeholders as the perception of fulfilling the obligation of maintaining the position as standards setter. The view of fulfilling obligation by DSAK and DSAS was evaluated through due process by reflecting the international accounting standards due process. The act of following international due process which included public involvement was considered as the reason for accepting the standards-setting process in Indonesia. The context for following international due process was identified as procedural legitimacy. The decision to follow international accounting standards due process was followed by statements of public involvement in the accounting standards-setting in Indonesia. The act of following international due process and procedures not only existed in conventional standards or IFRS based standards but also in the development of sharia accounting standards.

The interviewees evaluate the importance of public engagement in accounting standards as a key issue of acceptance. With the possibility of engaging in accounting standards development, the public can understand and discuss their concern towards particular issues of proposed accounting standards. Through this mutual relationship between public (industries) and standards setters, both benefit from the process of accounting standards development. For DSAK/ IAI, the willingness of stakeholders to participate shows the legitimate position of standards setter, whereas, for stakeholders, public engagement gives them the opportunity to discuss their concern and gives them clarity towards accounting standards.

The research also revealed that Indonesia's accounting standards due process was similar to the international due process. The degree of similarity can be seen through the identification of the step-by-step due process undertaken in the development of accounting standards. Although the due process is not exactly the same, at least there is a degree of similarity between PSAK and PSAKS due process with the IASB due process. According to Foundation (2016, p.14), some steps are mandatorily applied in the due process by IASB and its interpretation committee in advance before standards or interpretation are issued. These steps are designed to be a safeguard to protect the integrity of the standards-setting process (Foundation, 2016, p.14). Below is the comparison of IASB due process and DSAK or DSAS due process based on Foundation (2016, p. 14) and *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) regarding IAI organisational rules 2013:

TABLE 6.1. DUE PROCESS COMPARISON BETWEEN IASB AND DSAK OR DSAS

IASB	DSAK or DSAS
Mandatory: a) Debate any proposals in one or more public meetings; b) Expose for public comment a draft of any proposed new standard, propose an amend to a standard or propose interpretation with minimum comment periods; c) Consider in a timely manner those comment letters received on the proposals; d) Consider whether the proposals should be exposed again; e) Report to the advisory council on the technical programme, major project, project proposal and work priorities; f) Ratification of an interpretation by the IASB	Mandatory: a) Issue identification; b) Issue consultation with DKS (*Dewan Konsultatif Standard* / Standards Consultation Board); c) Conduct limited research; d) Material discussion of financial accounting standards/sharia accounting standards); e) Validation and exposure of draft publication; f) Conduct public hearings; g) Conduct limited hearings (if needed); h) Discussion of public hearing; i) Legalisation of financial accounting standards / sharia accounting standards
Non-mandatory: a) Publish a discussion document (for example a discussion paper) before an exposure draft is developed; b) Establish consultative groups or other types of specialist advisory groups; c) Hold public hearings; d) Undertake fieldwork.	Note: For due process and procedure of technical bulletins and annual improvements, it is not mandatory to follow all the due process steps above.

Source: Foundation (2016, p.14) and *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013)

According to the IASB due process, in order to gain feedback from its followers. By comparison, the DSAK or DSAS due process is also involved in public hearings, for instance, through limited and public hearings. Both due processes are also required to report to the advisory council (IASB) and the Standards Consultation Board (DSAK or DSAS). Interestingly, public hearings and public involvement in the standards-setting process is considered a pivotal part of developing accounting standards.

Maintaining acceptance of stakeholders involved in the standards-setting process is identified as maintaining legitimacy or its technical characteristics (Richardson and Eberlein, 2011). One of the technical characteristics in the standards-setting process is a public hearing or public involvement. Through this involvement, the public can understand and are willing to become involved in the process of developing standards. Therefore, the decision to follow international accounting standards due process is due to the availability of public hearing in due process, which is categorised as procedural legitimacy.

The last main theme for accepting the standards-setting process is due to biases based on professional considerations and religious beliefs. The professional considerations consists of two sub-themes: evaluation of IAI infrastructure and the logic of accounting profession.

The evaluation of IAI structure mainly relates to the acceptance of accounting standards through the awareness of IAI's structural position (the status of DSAK board of members identifies as part-time membership rather than full-time membership). The structural recognition of DSAK boards of member is characterised via: i) the subordinate structure of DSAK of IAI and ii) delegation and representation, which is structural legitimacy. Structural legitimacy is easily perceived and evaluated. In addition, "structural characteristics also become markers of organisational form, locating the organisation within a larger institutional ecology and thereby determining with whom it will compete and from whom it will draw support" (Suchman, 1995, p.581).

The recognition of DSAK through its employment character as part-time institution shows the detail understanding of DSAK board of members' responsibility. According to and *Dewan Pengurus Nasional Ikatan Akuntan Indonesia* (2013) regarding IAI organisational rules, there are no statements of internal regulations that state either DSAK and DSAS board members as part-time or full-time working status. It is interesting that the stakeholders are aware that the legal support of DSAK and DSAS are questioned. However, the decision to follow this institution remains stronger and legitimate. The acceptance due to the recognition of DSAK and DSAS board of members as part-time workers is supported by the recognition of DSAS and DSAK as a subordinate of IAI. The recognition of IAI as a legitimate institution strengthens the status of DSAK and DSAS as an authorised institution in accounting standards development. The acceptance due to structural reasons is not restricted to the internal characteristics of DSAK and DSAS, it is also due to delegation and representational factors.

The acceptance of DSAK and DSAS in Indonesia cannot be separated from the logic towards accounting profession. As previously described, DSAK infrastructure acceptance is due to DSAK being placed as a subordinate to IAI. Therefore, the interesting reason is the logic towards accounting profession in the development of accounting standards in Indonesia. The recognition of accountants cannot be separated from the historical reasons. Historically, accountants were required to assist the nation towards economic competitiveness. Accountants were considered an essential part of national development due to their knowledge competency and capabilities regarding financial reporting. Hence, the government of Indonesia decided to issue regulation number 1954 on the use of the title "accountant". The regulation stated that it is vital to maintain the work of accountants as a professional through education and the privileged status of accountants in society.

This research identifies that professional considerations are one of essential reasons for legitimating the standards-setting process. The recognition of the role of accountants and accountancy as a professional institution as well as the belief and trustworthiness of accountants shows that taken-for-granted legitimacy is due to professional considerations.

Interestingly, the professional considerations towards IAI are described based on various views and recognition of accountants. The views regarding IAI include accountants as "qualified, trustworthy, single authorised institution, deserve, running their professional function, maintaining professional work, credible institution, always professional, has credibility, has internal regulation, independent, objective, fair, everywhere, have knowledge competency, has strong historical background, well-establish profession, strong profession, and problem-solving institution". Based on these views regarding accountants as an important actor in the development of accounting standards. These views were described by interviewees and compiled in order to create an understanding of the factors that describe DSAK (IAI) as a legitimate professional institution due to taken-for-granted perception.

The rationale of IAI (through DSAK and DSAS) perceived by the interviewees as an important figure in the development of accounting standards. This rationale was also associated with the logic of appropriateness, as previously described in due process and procedure. The difference is when this logic of appropriateness exists due to the existence of polity embodied in political community due to their membership and position in the community (March and Olsen, 1989, p.161). The political community is constructed on shared assumption such as history, shared value of life, a share of definition of common good, and shared interpretation and understanding ibid). In the context of accounting standards, the role of accountants is described as a professional occupation in society to objectively provide assistance regarding financial matters. In this context, IAI is perceived as a professional institution engaged in society and IAI acknowledges the needs of the professional occupation in Indonesian society. The logic of accountants also shows that IAI is interpreted and justified as an essential and needed institution in the arena beyond accounting regulatory spaces, and is not limited to regulatory spaces. Therefore, it is reasonable to claim that IAI, as an accounting institution in Indonesia, is perceived as legitimate.

Interestingly, the recognition of accountants through IAI as a prominent player and as a well-recognised profession is represented through the logics associated with professional considerations. As described by Millerson (1964, pp.10-13), the process of professionalisation consists of four factors associated with achievement. "The first is identified as the ability to achieve a definable basis of background knowledge and practice plus a crystallisation of the activities composing the occupational task; the second is the opportunity to acquire knowledge and practice; the third the development of self-consciousness by merging professionals; and the fourth the realisation and recognition of the occupation as a profession by those outside the occupation" (Millerson, 1964, pp.10-13).

In the context of Indonesia, IAI was accepted as a professional institution and characterised via knowledge understanding and recognition due to accountants' capability as outsiders (Millerson, 1964, p.10-13). In addition, IAI was characterised nu using 'values, norms, and symbols' (Greenwood, 1966, p.16) to accept accounting profession in the development of accounting standards. DSAK and DSAS were legitimate because of IAI. IAI was comprehended as a professional institution due to the symbolisation that IAI is a: "qualified institution, trust, single authorised institution, deserve, running their professional function, maintaining professional work, credible institution, always professional, has credibility, has internal regulation, independent, objective, fair, everywhere, have knowledge competency, has strong historical background, well-establish profession, strong profession, and problem-solving institution".

Furthermore, the symbolisation of IAI as a professional institution in this context is similar to Burns and Haga's (1977) intimidation criteria, which are cruciality and mystique. A profession is an occupation that possesses both a high degree of cruciality and mystique in the eyes of its relevant work audience (Burns and Haga, 1977). The perception of cruciality and mystique can also cause the acceptance and recognition of the profession to claim their legitimate position e.g. accounting profession. The crucial reason emerges due to the fact that the identification of the accounting profession is needed by society, while mystique relates to the problem-solving requirement (ibid). In the context of IAI as a professional institution, the characterisation of IAI is also represented by cruciality and mystique. The cruciality, for instance, is through the logic of IAI as a needed institution with all the reasons, such as qualification, trust, merit, credibility and knowledge background. The interpretation of IAI through these words represents IAI as a crucial institution in the process of developing accounting standards in Indonesia. The mystique factor also demonstrates that IAI is capable of being a problem solver.

The logic to accept accounting profession as legitimate actors is linked with historical reason of the development accounting profession in Indonesia. Since 1954, IAI rapidly evolved in Indonesia, and the awareness of the accounting profession is equivalent to the awareness of financial reporting development. IAI is the only accounting profession recognised by the government; by this recognition, IAI can expand its status in society as a needed and trustworthy institution. Interestingly, the expansion of IAI as professional institution is well-recognised by stakeholders in accounting standards development. The logics related to accountant capacity, quality and trustworthiness is represented in IAI as a professional institution of accounting standards development that affects the legitimacy of accounting standards development in Indonesia.

This section also identifies how fatwa is identified as the main source of acceptance in sharia accounting standards development by the interviewees. Accordingly, fatwa by DSN-MUI can be characterised as the main foundation and primary source for sharia standards. Without any fatwa, sharia accounting standards would be illegitimate for stakeholders. Contextually, fatwa as the main source in the development of Islamic standards is well-recognised by the interviewees as the source of acceptance of sharia standards, thus the recognition towards fatwa represents taken-for-granted legitimacy due to fatwa in sharia accounting development.

Besides the recognition of fatwa as the foundation and fundamental reflection of sharia standards, fatwa is also accepted by the interviewees via procedural reason (procedural legitimacy). The moral perspective is reflected through the interpretation of fatwa as a moral gatekeeper of accounting standards. Through fatwa (DSN-MUI's fatwa), the interviewees comprehend that sharia accounting standards are being developed based upon strong foundation. Hence, through fatwa the sharia standards-setting process is accepted via procedural legitimacy. Fatwa becomes very substantial and the primary source of legitimating standards-setting. With the availability of fatwa, sharia accounting standards are then easier to develop and implement; therefore, sharia accounting standards meet the expectation from the stakeholders.

In addition to the importance of sharia principle and fatwa, the role of Islamic actors or namely Ulema (DSN-MUI) was considered another justifiable reason to be followed. Their significant role is not only related to religious guidance but also their decision regarding religious issues. In Indonesia, sharia accounting standards are developed by IAI. However, due to 'sharia' and its religious consideration, IAI should follow other legitimate institution to legitimate their actions in sharia accounting standards development. As a legitimate institution of fatwa development in Indonesia, DSN-MUI represents the Ulema who deal with Islamic businesses and finance. As legitimate actors of fatwa developments in Indonesia, the acts of DSN-MUI, decisions and regulations become very substantial for those who engage in sharia businesses and finance. The role of DSN-MUI is important due to its knowledge and understanding of religious matters. Therefore, it shows taken-for-granted legitimacy due to Islamic actors.

Also, the recognition of DSAS is characterised through the understanding of DSAS' board of members. DSAS represents different actors in the area of sharia accounting standards regulatory spaces, namely OJK, BI, academics, audit institutions, preparers and

DSN-MUI. Interestingly, one actor that has become the most substantial actor in sharia accounting standards is DSN-MUI. DSN-MUI can be categorised as the most prominent institution of sharia accounting standards development. Thus, structural legitimacy is present through awareness of DSN as a delegated institution in the DSAS board of members.

Furthermore, the interviewees comprehend that DSAS and IAI should follow a more competent institution, namely DSN-MUI. The recognition of DSN-MUI as more competent is explained via several reasons: the classification of DSN-MUI as an expert (religious expert); the recognition of DSN-MUI as authority (religious matters); the ability to provide a solution (regarding sharia issues); and the recognition of DSN-MUI as the primary source of sharia development (fatwa development). The identifications show that taken-for-granted legitimacy relates to the role of DSN-MUI in the arena of Islamic accounting standards development in Indonesia.

This study has classified the three roles of DSN-MUI as an influential and legitimate actor in sharia accounting standards development as understood and evaluated by the interviewees, namely: (i) its representation in DSAS and IAI; (ii) DSN-MUI's participation in due process and procedure; and (iii) reviewing and legalising PSAKS by DSAS. Through these three roles, a clearer picture of DSN-MUI's involvement in sharia accounting standards can be witnessed. This classification not only represents how DSN-MUI is involved in the development of sharia accounting standards but also how other actors view DSN-MUI as an essential actor in the successful development of sharia standards in Indonesia.

No research has ever observed and contrasted sharia accounting standards and conventional accounting standards legitimacy, in particular, the work of dual standards setters (DSAK and DSAS) for the development of accounting standards in Indonesia under a single accounting profession such as IAI. Various topics have been investigated in the area of Islamic accounting literature such as: the importance of sharia principle for Islamic accounting development (Abdel-Magid, 1981; Haniffa and Hudaib, 2002; Mirza and Baydoun, 1999); the ethical values of Islamic banks (Haniffa and Hudaib, 2007); the level of compliance of national sharia and international standards (Sarea, 2012); the historical and future research of Islamic accounting (Napier, 2009) and the role of critical Muslim intellectuals in driving forward critical Islamic accounting research (Kamla, 2015; Kamla & Alsoufi, 2015). This research enhances previous research in Islamic accounting by focusing on the difference in legitimacy between conventional and Islamic accounting standards development. The findings of this research regarding sharia accounting is in response to Napier's (2009) study on the actors responsible for preparing Islamic accounting. This research explored the actors involved in sharia accounting standards development and examined how sharia accounting standards have been developed and accepted by stakeholders for religious reasons.

This research presents the parallel activities between DSAK and DSAS as standards setter for the development of accounting standards. The commitment towards sharia standards is present in the way in which DSAK establishes sharia committee (before the separation of DSAS from DSAS in 2009) to accommodate Islamic banks. The effect of this transformation of DSAK, DSAS and the existence of sharia accounting alter the way financial reporting develops and the nature of the accounting profession. Religious consideration becomes the main factor concerning sharia financial reporting. As accounting profession, accountants are influenced by religious reason. Accounting profession should be able to update their knowledge regarding sharia accounting. Accounting profession also should be able to facilitate the growth of Islamic accounting standards, thus helping the growth of Islamic banking by collaborating with other legitimate institution in sharia accounting standards development.

The role of the *Ulema*, which is represented through DSN-MUI, clearly illustrate the importance of Islamic actors in the arena of regulatory spaces in Indonesia. Although Indonesia differentiates between religion and governance and follows secular values, the influence of DSN-MUI in sharia standards-setting and their authority of *fatwa* development describes the imminent role of *Ulema* participating in the accounting standards-setting. With the establishment of DSN-MUI by MUI, it has been confirmed that MUI reflects the focus on society that Hasyim (2011) describes as the big tent of Islamic society. The act legalised and approved DSAS' proposed standards, and shows DSN-MUI's authority in regulating Islamic financial institutions. Moreover, the act of developing sharia accounting standards is similar to Baylin et al. 's (1996) study which classified the creation of accounting standards into three, the protection of interest, comparison of consumption and coordination. More specifically, the process of developing sharia standards can categorised as identification of coordination based on Baylin et al. (1996). DSAS has coordinated with other institutions, namely DSN-MUI, to create sharia accounting standards. The coordination between DSAS and DSN-MUI has created a strong collaboration for legitimising sharia accounting standards in the arena of regulatory spaces.

Finally, this section has discussed the legitimacy dynamics of conventional and Islamic accounting standards setting in Indonesia. The types of legitimacy found in this section are identified separately but, in reality, the legitimacy dynamics between moral and cognitive legitimacy coexist and inter-dependent.

The next section presents the difference in legitimacy between convenional and Islamic accounting standards in Indonesia.

6.5.1.1. Legitimacy dynamics difference between conventional and Islamic accounting standards-setting

As discussed previously, this section presents the difference in legitimacy dynamics between conventional and Islamic accounting standards in Indonesia using Suchman's (1995) legitimacy typology by emphasising moral evaluation and cognitive legitimacy.

TABLE 6.2. LEGITIMACY DYNAMICS DIFFERENCE BETWEEN CONVENTIONAL AND ISLAMIC ACCOUNTING STANDARDS

Legitimacy types by Suchman (1995)	**Conventional accounting**	**Islamic accounting**
Consequential legitimacy	• Capital market • Translation of US GAAP and IAS • IFRS convergence • G20 countries • IFAC	• Following Islamic principles • Following divine laws
Procedural legitimacy	• Due process • Public involvement	• *Fatwa* as the main source in due process
Structural legitimacy	• Delegation and representation in	• Delegation and representation in

	DSAK infrastructure	DSAS infrastructure • DSN as delegated institution in DSAS infrastructure
Taken for granted legitimacy	• IFRS convergence • G20 • IFAC • Legal support • Accounting profession	• Importance of Islamic principles (sharia) • Acceptance of *fatwa* as the main source • DSN (Islamic Actor)

Table 6.2 above presents the difference in legitimacy dynamics between conventional and Islamic accounting standards in Indonesia via moral legitimacy (consequential, procedural and structural) and cognitive (taken-for-granted) legitimacy.

In the context of moral legitimacy, the first is consequential legitimacy. Conventional accounting standards' consequential legitimacy is identified through capital market establishment, the translation of US GAAP and International Accounting Standards by IASC, the commitment of IFRS convergence, the influence of G20 and the commitment of IAI as part of International Federation of Accountants (IFAC). For Islamic accounting standards development, consequential legitimacy is characterised by the evaluation of Islamic accounting standards, which should be developed in compliance with Islamic principles and divine laws.

The second type of moral legitimacy is procedural legitimacy. In conventional accounting standards, this is perceived through the importance of due process and procedure, including the awareness of public involvement in due process. Due process and procedure are evaluated by interviewees using positive dictions such as: the due process that "has standard goal" and a process that are identified as a "fine" process, "very good", "runs very well", "done precisely", "very qualified", "magnificent", "conforms to governance", “follows the right procedure”, “quite good” and “proper due process”. In Islamic accounting standards, procedural legitimacy is evaluated through the availability of *fatwa* as the main source of due process of Islamic accounting standards.

The third type of moral legitimacy is structural legitimacy. The structural legitimacy in conventional accounting standards is represented due to the evaluation of DSAK infrastructure. The interviewees accept DSAK since it is a subordinate of IAI. Moreover, DSAK being legitimate is characterised by delegation and representation from various actors in DSAK’s (membership) board. Similarly, in Islamic accounting standards development, structural legitimacy is present through awareness of DSAS infrastructure. DSAS infrastructure is characterised as delegation and representation from various interested parties, as well as the representation of sharia actors (DSN) in DSAS’s (membership) board.

The last type is taken-for-granted legitimacy. Taken-for-granted legitimacy of conventional accounting standards is present through acceptance of international convergence (IFRS and IAS), the G20’s decision to follow IFRS, the role of law/legal towards standards setting, the acceptance of IAI to follow IFAC and taken-for-granted acceptance by means of accounting professionalism. The role of IAI as legitimate actors in the development of conventional accounting standards is well understood by the interviewees. The trust of society towards the accounting profession in the development of accounting standards is present through the perception that IAI : “is a qualified institution, deserves trust, is a single authorised institution, deserves the right to develop accounting standards, runs its professional function, maintains professionality, is a credible institution, is always professional, has credibility, has internal regulation, is independent, is objective, is fair, is omnipresent, has knowledge competency, has a strong historical background, is a well-established profession, is strong profession and is a problem-solving institution”. In contrast, taken-for-granted legitimacy in Islamic accounting standards development is for three main reasons: i) the importance of sharia principles; ii) the acceptance of *fatwa* as the source of Islamic accounting standards development; and iii) the role of DSN as Islamic actors. This research also identifies three roles of DSN as an influential and legitimate actor: (i) through its representation in DSAS and IAI; (ii) DSN-MUI participation of due process and procedure; and (iii) reviewing and legalising PSAKS by DSAS.

6.5.2. Cognitive biases due to professional considerations and religious beliefs in conventional and Islamic accounting standards

In the context of cognitive biases, the cognitive acceptance is characterised via the logic of accounting profession (IAI) and religious consideration (DSN-MUI and *fatwa*). This reason emerges due to certain actors or reasons are legitimate due to taken-for-granted legitimacy. Taken-for-granted legitimacy becomes a critical reason explaining the importance of accountants or accounting profession (IAI) and religious beliefs in causing legitimacy in the development of accounting standards-setting in Indonesia (both for conventional and sharia accounting standards).

This study has identified that cognitive biases embedded due to professional considerations exist in accounting standards development in Indonesia. The cognitive biases are embedded in the understanding that IAI is considered as the most important actor in both sharia and conventional standards-settings. For conventional standards, the cognitive biases have emerged through taken-for-granted reason whereby IAI is perceived as "fair, trustworthy, qualified, professional, credible, independent, objective, and reputable". The society's belief and trust in IAI is a result of professional considerations, namely: "fairness, trust, qualification, credibility, independency, and objectivity". The institutionalisation of IAI as a professional occupation in society is not only perceived as a professional accounting institution but also as regulator in the development of accounting standards. Furthermore, IAI is recognised as a professional institution, an actor in financial reporting, a regulator and a consultant regarding accounting matters. IAI has a strong historical background and is perceived as a legitimate institution. With taken-for-granted acceptance of IAI as an institutionalised actor in accounting standards, this shows the recognition of IAI as a knowledgeable professional institution leads to cognitive biases as a result of professionalism.

However, cognitive biases due to religious reasons were also present in the development of sharia accounting standards through the sharia actors involved in sharia standards and the importance of sharia contexts (*fatwa* and sharia principles). In the context of sharia actors, the role of DSN-MUI is recognised as an essential source for generating acceptance of sharia standards. This research identifies three contributions from DSN-MUI towards accounting standards development which lead to cognitive biases towards DSN-MUI: (i) DSN-MUI's representation in DSAS and IAI; (ii) DSN-MUI's participation in due process and procedure; and (iii) reviewing and legalising PSAKS by

DSAS. Furthermore, DSN-MUI is accepted due to its background as an institutionalised religious actor. In the context of sharia standards, the recognition of DSN-MUI as a legitimate actor supports the contention that DSAS is not the only legitimate institution in the field of sharia standards-setting, rather that DSAS is legitimate due to DSN-MUI's legitimacy. Without action from DSN-MUI to be involved, participate and legalise sharia accounting standards, the development of sharia standards will stagnate and be illegitimate. The trust bestowed upon DSN-MUI by all actors represents taken-for-granted legitimacy in the development of accounting standards. In addition, the taken-for-granted legitimacy of DSN-MUI also caused the cognitive biases due to religious beliefs, namely DSN-MUI as a religious actor.

The importance of sharia contexts is present through *fatwa*, which affects the development of sharia standards. The importance of sharia principles is understood to be a crucial factor in legitimising accounting standards. The consistency of accounting standards towards sharia and *fatwa* indicate the imperative role of Islamic law as a primary source in developing accounting standards by DSAS. In addition, the role of *fatwa* has been found to be the most fundamental component in the development of these standards. The lack of religious background and knowledge means that DSAS, IAI and other institutions follow the more competent institution, namely DSN-MUI. Therefore, this situation has created cognitive biases due to religious reason, namely the *fatwa* as a main source of Islamic accounting standards development.

This research also identifies that cognitive biases of religious beliefs are greater compared to professional considerations. The cognitive biases in towards accounting profession in Indonesia is linked with historical status of IAI as the oldest one in Indonesia. Since the foundation of IAI in 1957, the members of IAI are ubiquitous and hold a strategic position in Indonesia. Besides being well-known as the oldest accounting profession, IAI is understood to be a qualified and knowledgeable institution related to accounting matters. IAI holds a privileged status in society due to the society's taken-for-granted beliefs and trust towards IAI. Therefore, cognitive biases towards IAI become significant in the development of accounting standards in Indonesia. In addition, the development of sharia standards in Indonesia is heavily linked with the religious considerations, namely the awareness of Islamic principles, the acceptance towards fatwa as the main source of sharia standards, fatwa as procedural reason in standards development and the existence of DSN-MUI. Indonesia is a secular country but religion remains key in both the political and social context. In addition, Islam is a holistic religion. The awareness of Islam as holistic religion is well understand by its adherent. Islam not only associates with religious prescription but also relates to social life. n the economic context, Islam addresses the prohibition of interest and allows trading as an alternative. Over time, Islamic scholars and academics formulate and discuss the concept of Islamic banking and Islamic accounting. Regarding Islamic accounting, Islamic scholars address the importance of Islamic accounting as an alternative to the western accounting system. The awareness of Islamic accounting as alternative to the conventional accounting system is well-understoodby Indonesian stakeholders via their commitment towards Islamic accounting standards and the separation of DSAS and DSAK. The establishment of DSN-MUI as a legitimate actor of fatwa development historically represents Ulema as an important actor not only in relation to religious matters but also to the social context. Accordingly, the greater cognitive biases in religious beliefs show that sharia compliance is far more important compared to accounting principle. Furthermore, the recognition of both DSN-MUI's role and its fatwa is identified as an integral part in the development of sharia accounting standards. The seal of approval of conventional accounting standards are given to accounting profession. However, the seal of approval for Islamic accounting standards is given by divine laws via religious scholars who are ultimately human beings. Thus, this research argues that cognitive biases embedded due to religious consideration are unconditional, while cognitive biases are due conditionally to professionalism. While the trust and belief in religion is of the upmost importance, the trust felt towards the accounting profession and its professionalism is conditionally important. Therefore, this research identifies that cognitive biases due to religious reason are greater compared to professional considerations in the development of accounting standards.

6.6. Conclusions

This analysis and discussion chapter identified three main themes of legitimacy dynamics of accounting standards-setting in Indonesia, for both conventional and Islamic accounting standards. The analysis began from historical viewpoint which examined the legitimate factors in accepting accounting standards, including political influence from G20 countries, the commitment from IFAC and the role of legal context. Secondly, the reasons for acceptance also appear to be the result of due process and procedural reasons.

The themes of due process and procedure associated with the acceptance of accounting standards are due to the moral evaluation of due process (including the moral legitimacy that follows from international due process). The last theme is biases embedded in professional considerations and religious beliefs. The discussion section identifies the legitimacy types as identified by Suchman (1995) coexist and are interrelated in causing the legitimacy dynamics of accounting standards development. In addition, this research also identifies the differences in legitimacy dynamics between conventional and Islamic accounting standards based on moral (consequential, procedural and structural) and taken-for-granted legitimacy.

In the context of conventional standards, the accounting profession has become the most significant trusted institution due to recognition of its professional status. However, in the context of sharia standards, the authority of the accounting profession is limited due to the characteristics of sharia standards. Therefore, the accounting profession in sharia standards should cooperate and follow other institutions such as DSN-MUI which, compared to IAI, has a more significant role in the development of sharia transactions. This research also shows that cognitive biases based on religious beliefs are greater than professional considerations in the development of accounting standards.

Chapter 7. Conclusions

7.1. Introduction

As a closing chapter to the present study, this chapter concludes the current research. It is arranged as follows: Section 7.2 summarises what has been reported in this study; section 7.3 describes the contribution of this research as well as its limitations, and section 7.4 describes avenues for future research.

7.2. Summary

In summary, the research begins with an introduction to Chapter 1. This chapter explains the research topic, objectives and findings of the research. Following this, chapter 2 presents the Indonesia case study. Indonesia is an interesting country to investigate accounting standards-setting. Indonesia is a Muslim-majority country but adopts a secular identity. Chapter 2 consists of four sections: i) historical context of accounting development; ii) development of accounting profession; iii) development of Islamic accounting; and iv) the duality of infrastructure of accounting standards development.

Accounting was initially adopted and put into practice prior to independence on 17 August 1945. Following this, the discussion was followed by the development accounting profession. The section on the development of the accounting profession discusses government regulations that support the development of accounting profession, namely: Act Number 34, 1954 regarding "accountant degree". This regulation became the foundation for other regulations and recognition towards accountants in Indonesia. In 1957, the IAI was established to accommodate the need for professional institutions who could represent accountants. In 1999, the Ministry of Finance issued a regulation regarding the registration of national accountants. Then, in 2014, the Ministry of Finance replaced this regulation with a new one: the Ministry of Finance Regulation, Republic of Indonesia, Number 25/PMK.01/2014 regarding National Accountant Register and the Decision of Ministry of Finance, Republic of Indonesia, Number 263/KMK.01/2014 with regards to Determining Indonesian Institute Chartered Accountants as a Professional Accountant Association. In support of the Ministry of Finance, the Ministry of Education and Culture issued Regulation Number 153 of 2014 regarding the Organisation of Professional Accountants Educational Programme. The regulations previously identified show the recognition towards IAI and its efforts to maintain accounting profession in Indonesia.

For Islamic accounting development, this section discusses Islamic accounting as emerging as an alternative reporting for Islamic Banking in Indonesia. Through the enactment of Sharia Banking Act Number 21, 2008, this regulation has helped the foundation of Islamic accounting standards. In addition, the section also identifies the characteristics of sharia accounitng standard boards in Indonesia and compares with other countries.

The next section discusses the unique duality infrastructure of accounting standards development. The infrastructure of accounting standards development in Indonesia is under IAI authority. This section also presents how IAI subordinates two standards setter – namely DSAK and DSAS – under its supervision and control to develop conventional and sharia ccoutning standards. In addition, through regulation, the government also supports the development of accounting standards through Capital Market Law Number 8, year 1996, company law number 40, year 2007 and *BAPEPAM* regulation number VIII.G.7. These three regulations implicitly and explicitly mention the role of DSAK and DSAS as recognised actors by government institutions through IAI.

In chapter 3, this research presents the literature review in regard to accounting standards as a social context. Accounting standards-setting is imperative since it has profound and far-reaching consequences. Accounting standards not only affect company financial performance but also human and social behaviour. This chapter is divided into two main topics: i) literature in conventional accounting standards and ii) literature in Islamic accounting. The literature in conventional accounting standards presents the importance of political aspects, including lobbying activities due to pragmatic economic motivation (e.g. Larson, 1997; Puro, 1984; Watts and Zimmerman, 1978) and the diversity of participation (e.g. Brown and Tarca, 2001; Harding and Mckinnon, 1997; Jorissen et al., 2012; Larson and Herz, 2011;). In this section, it is also mentioned how cultural values affects accounting standard development includes religion (e.g. Baylin et al., 1996; Chow et al., 1995; Hamid et al., 1993; Hodges and Mellett, 2002; Hussein and Ketz, 1991; Nurunnabi, 2015; Rahman et al., 1994). Legitimacy is important and a prerequisite for organisational existence includes accounting standard setter. Previous research investigates legitimacy differently: legitimacy due to geographic bias (Jorissen et al., 2013); the act of standards setter to proactively seeking input and response in accounting regulatory arena (Durocher and Fortin, 2010); the application of legitimacy theory and its combination with other theory (Durocher and Fortin, 2011; Johnson and Solomons, 1984); the role of regulation for causing legitimate reason (Schmidt, 2002); and legitimacy in the context of international standards-setting (Bamber and McMeeking, 2016; Larson, 2007; Pelger and Spieß, 2016; Richardson and Eberlein, 2011).

Chapter 3 also identifies previous research in Islamic accounting. Previous research was mainly focused to the development of theoretical foundation of Islamic accounting (Abdel-Magid, 1981; Haniffa and Hudaib, 2002; Mirza and Baydoun, 1999; , ethics and social responsibility (Haniffa and Hudaib, 2007; Kamla et.al, 2006), international regulator for Islamic financial institution (Abdel Karim, 1995) and historical perspective in Islamic accounting standards development (Napier, 2009). By linking previous research between conventional and Islamic accounting standards, this research finds a research gap: a lack of research in regard to how religion affects accounting standards development (Hamid et al., 1993). Addressing Napier's (2009, p.136) call for more research in Islamic accounting with regard to the use of "Islamic accounting by states or governemnt, the characteristics of group preparing accounts, and the roles of Islamic accounting in organisations." Therefore this research objective is to explore and compare the legitimacy dynamics of accounting standards setting between conventional accounting standards and Islamic accounting standards, in particular, the cognitive biases embedded due to professional considerations and in religious beliefs.

Following the background of the research and the literature review, Chapter 4 explains the theoretical foundation of this research. The theoretical foundation was constructed based on: i) the legitimacy theory as proposed by Suchman (1995); ii) cognitive and evaluation of accounting profession; and iii) cognitive and evaluation of religious consideration. The focus of the research is to provide an explanation of the legitimacy dynamics accounting standards-setting in Indonesia. The reason for using the legitimacy theory by Suchman (1995) is because Suchman provides comprehensive types of legitimacy due to evaluation and cognitive reason in describing legitimacy types. In the context of accounting standards in Indonesia, besides the recognition of IAI as a professional institution, IAI is also responsible for the development of accounting standards both in conventional and Islamic accounting standards through DSAK and DSAS. Due to this unique infrastructure that IAI has in dual and parallel standards setter, this research developed the research objective as follows: ***to explore and compare the***

evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standard settings. In particular, to explore and compare cognitive biases embedded in professional expertise and religious beliefs. Derived from this point of view two research questions were developed:

1. What are the main drivers of evaluative and cognitive aspects of legitimation dynamics in conventional and Islamic accounting standard setting in Indonesia? What are the differences?
2. How different are cognitive biases embedded in professional expertise and religious beliefs and how do they influence the legitimation process in accounting standard setting?

To address these research questions, Chapter 5 explained the methodology adopted and the data obtained. Using qualitative interviews approach, this research aimed to gain an in-depth understanding of the answers to the research questions. A total of 34 interviews were conducted with six different backgrounds: academics, government institutions and regulators, audit institutions, preparers, sharia accounting scholars, and sharia institutions. This research applied thematic analysis to identify the common types of coding (Boyatzis, 1998, p.4). In order to maintain validity, this research used source triangulation which refers to the use of a different source of data to check the consistency of data resources within the same method (Patton, 2002, p.556).

Chapter 6 revealed the analysis and discussion of this study to respond to the two research questions. It found that the legitimacy dynamics of accounting standards-setting in Indonesia are caused by three themes constructed from interviewees' perception(s). The first is the historical context where legal and political influence and cooperation are involved, the second is the acceptance of due process and procedure and the third is biases embedded in professional considerations and in religious beliefs.

In the historical context section, it is explained that the acceptance of accounting standards exists due to: the translation of international standards namely US. GAAP, IAS, and most recently IFRS; the political influence of G20 countries and IFAC; and the legal perceptions of accepting the standards-setting process. In the context of translation and convergence, initial translations existed due to the translation of US. GAAP. As a standards setter, FASB is identified as an independent, professional and full-time institution. Therefore, stakeholders' beliefs are due to this cognitive reason; the stakeholders accept PSAK.

Nevertheless, from a historical viewpoint, the period of translation continues to the recognition of IAS translation and IFRS convergence. The commitment started from the need for global and comparative financial reporting. Indonesia's commitment to adhere to IFRS shows consquential legitimacy and takes acceptance for granted due to international communities and benefit for the society. By converging with IFRS, Indonesia's commitment is consistent with the commitment of IFAC and other G20 countries. The commitment by G20 to follow IFRS shows structural support. Similarly, for other developing countries, the cooperation of Indonesia towards G20 also exists, such as in Iraq as described by Hassan et al. (2014). International institutions tend to push developing countries to adopt transparency and macroeconomic policies, including the IFRS for financial reporting and receiving aid from international institutions (Hassan et al., 2014).

Interestingly, the legal acceptance is also found to support the legitimacy of accounting standards-setting in Indonesia through capital market act, company act, and *BAPEPAM* regulation. These regulations explain specifically that financial reporting and the role played by DSAK and DSAS as standards setters, which subsequently has led to the recognition of DSAK and DSAS as legitimate institutions. This finding is also similar to Durocher et al., (2007) who identified the role of government and regulatory agencies in supporting the Canadian Institute of Chartered Accountants through legal legitimacy. Legal legitimacy is related to the belief that the government supports the standards setter (Durocher et al., 2007). The acceptance of DSAK and DSAS is also represented through the recognition that no other institution can imitate the activities of the standards-setting process. Due to the lack of proper regulation to indicate financial reporting acts, the perspectives on the accounting regime remain the same towards IAI as an unchallenged institution in the area of regulatory spaces.

Based on the historical background, one of the main themes of legitimacy is due process and procedure. Due process of accounting standards in Indonesia was evaluated positively through consequential and procedural legitimacy. The recognition of DSAK and DSAS' due process by stakeholders was similar to the logic of appropriateness (March and Olsen, 1989; Young, 1994;). The acceptance of due-process as a reason for accepting accounting standards is characterised through normative and positive dictions such as "has standard goal” and a process that is identified as a “fine” process. In addition, procedurally, the running process of developing standards was also described by interviewees as “very good”, “run very well”, “done precisely”, “very qualified”, “magnificent”, “conforms to governance”, “follow the right procedure”, “quite good” “proper due process”. The justification for associating the problem with the context of standards-setting resulted in some positive reactions towards accounting standards-setting process emerge, due to their experience in the past with standards-setting process. The recognition of due process and procedures include the recognition of DSAK and DSAS’ structure where the public can be involved in the standards-setting process through public engagements, thereby showing procedural legitimacy. The moral legitimacy (consequential and procedural) are two distinct forms of evaluation, whilst consequential legitimacy is somehow difficult to measure; the procedural legitimacy exists due to the existence of visible and technical characteristics in accounting standards development (Richardson and Eberlein, 2011; Suchman, 1995).

In the final theme, the legitimacy of accounting standards-setting in Indonesia is also driven by biases embedded in professional considerations and in religious beliefs. In the context of professional considerations, legitimacy present via structural legitimacy due to IAI infrastructure and the awareness of delegation in standards setter. In addition, the main actor in the standards-setting process is IAI as a legitimate institution due to the professional background. DSAK and DSAS accept in standards-setting cognitively due to IAI as a professional institution. IAI has been described as “qualified”, “trustworthy”, “single authorised institution”, “deserve”, “running their professional function”, “maintaining professional work”, “credible institution”, “always professional”, “has credibility”, “has internal regulation”, “independent”, “objective”, “fair”, “everywhere”, “has knowledge competency”, “has strong historical background”, “well-established profession”, “strong profession”, and “problem-solving institution”. The views above show a strong and clear evaluation and understanding of the role of accountants as an essential actor that represents professional perspectives (e.g. Millerson, 1964, pp.10-13). These reasons towards the IAI also represent the logic of appropriateness. This logic is represented through the recognition that accountants are described as occupational professionals who engage and interact, providing assistance for the benefit of society. Thus, political community is based on a shared history, a valued way of life, a shared definition of the common good, a shared interpretation and a common understanding embodied in the rules for appropriate behaviour (March and Olsen, 1989, p.161). Accordingly, IAI is perceived as a professional institution that is engaged in a shared history through the needs of a professional occupation. The reasons of professionalism in Indonesia is similarly explained by Burns and Haga, (1977) who claim that perceptions towards the accounting profession could be categorised into two factors: cruciality and mystique.

Another type of biases is based on religious considerations in the standards-setting process, particularly in the sharia accounting standards development. This research identifies two themes in religious consideration that has caused legitimate perceptions. The first is the awareness of the role of sharia principles and *fatwa*, and the second is the role of sharia actors (DSN-MUI).

Firstly, the legitimacy of Islamic accounting standards underlines the importance of *fatwa* through the awareness that sharia accounting in Indonesia must follow sharia. This recognition is consistent with previous researchers who described how vital it is for Islamic accounting to reflect sharia principles (e.g. Abdel-Magid, 1981; Baydoun and Willet, 2000; Haniffa and Hudaib, 2002; Mirza and Baydoun, 1999). In addition to the recognition of sharia principles, the recognition to align sharia concepts has become the primary objective of the development of sharia standards in Indonesia. This has shown that sharia principles are more significant compared to conventional accounting.

In addition, the recognition of *fatwa* as the primary source in sharia accounting standards is also significant in affecting legitimacy that is taken for granted. *Fatwa* is characterised as the foundation of developing sharia accounting standards. Without *fatwa*, sharia standards would not be developed as it is the most vital source in developing sharia standards, IAI not being a legitimate institution of standards-setting but *fatwa* as the main resources.

Secondly, the role of religious aspects is presented through Islamic actors such as DSN-MUI. DSN-MUI is the main actor in sharia development and has become another legitimate institution besides the IAI. DSN-MUI has been depicted as more competent compared to IAI in the context of sharia. The act of recognising DSN-MUI in standards-setting can be classified into three types of actions: representation in DSAS, participation of DSAS due process and procedure, and legalisation of PSAKS. These three actions by DSN-MUI all clearly illustrate how DSN-MUI is evaluated and participate in the development of sharia accounting standards. Accordingly, this shows the taken-for-granted legitimacy of sharia standards-setting.

To address the second research question of this study, i.e. in relation to cognitive biases, the research identified that the reason towards professional and religious reasons creates the logic of cognitive biases. Cognitive biases also appear due to a lack of knowledge and understanding of accounting matters. Therefore, society tends to believe what accountants do, and take for granted acceptance of what accountants suggest. Similarly, in the context of sharia, cognitive biases emerge from beliefs that DSN-MUI is the most vital actor (due to its characteristics as *Ulema* and their understanding as a religious scholar) and the importance of sharia principles and *fatwa*.

By comparing cognitive biases, the research found that cognitive biases in religious beliefs were greater compared to professional considerations in the context of sharia accounting standards developments. The reasons exist due to the recognition that DSN-MUI is a prominent actor, sharia principles are the most important factors and the role of *fatwa* as the primary source of sharia accounting standards.

7.3. Contributions and limitations

The findings of the present study have contributed to the understanding of legitimacy of the accounting standards-setting process, particularly the difference in legitimacy between conventional and Islamic accoutning standards-setting. Legitimacy is a prerequiste for any organisational existence. Through evaluation and comparation of legitimacy dynamics between conventional and Islamic accounting standards, this research provides insight into the nature and logic to accept standards-setting process. This research, however, focused on the context of accounting standards-setting process as described by Gillis et al. (2014) in a special issue of AAAJ on accounting regulation for more research to be done on accounting standards-setting process that "aims to explain what is happening, why it is happening".

This research found a gap in exploring and contrasting legitimacy in conventional and Islamic accounting standards development. Accordingly, religion is a cultural factor that affects individuals and organisational behaviour. Therefore, it also influences the development of accounting standard settings in specific country, yet little attention has been given to investigate this condition. Interestingly, accounting standards in the modern world today is a product of capitalism with Judaic and Christian roots (Hamid et al., 1993). This research provides comparative perspective between western and Islamic world. Accordingly, this research offers insights into accounting standards-settings in Indonesia since Indonesia has two parallel standards setters for private institutions: DSAS and DSAK, both of which operate under IAI. In addition, this research has also addressed Napier's (2009) arguments regarding the historical perspective of Islamic accounting which highlighted the need for further research into Islamic accounting through the lens of "the use of accounting by states and governments, the characteristics of groups for preparing accounts, and the roles of accounting in organisations" (Napier, 2009, p.136).

In the context of legitimacy, legitimacy essentially shows acceptance, and organisational acceptance by others depicts the legitimate position of an organisation (Human and Provan, 2000). This study enhances previous research which has investigated the importance of legitimacy to maintain organisational existence through delegation of authority (Johnson and Solomons, 1984); coordination of joint action (Baylin et al., 1996); constituent participation (Larson, 2002); strategy of maintaining legitimacy (Richardson and Eberlein, 2011); and the role of international organisation in supporting legitimacy (Danjou and Walton, 2012).

The apparent gap in the context of the legitimacy of accounting standards-setting has drawn attention to the need for this research to investigate the legitimacy of accounting standards-setting in Indonesia by exploring legitmacy between conventional and Islamic accounting standards. Using qualitative interviews and thematic analysis, this research found three main themes of the legitimacy of accounting standards-setting. It also contrasted the perspectives on standards-settings between sharia and conventional accounting standards. As a legitimate institution, the role of IAI and DSN-MUI provide insights into how acceptance is affected by these two institutions in the development of accounting standards in Indonesia. The different reasons for acceptance are due to professional and religious reasons, which explains the difference in rationale for accepting accounting standards due to dual and parallel standards setters.

As with all theoretical studies, this research is not exempt from limitations. The research aims to uncover legitimacy perspectives on accounting standards-settings, in particular legitimacy dynamics in between conventional and Islamic accounting standards setting. The legitimacy represents the acceptance of accounting standards-setting activities from the perspectives of actors involved and their experiences in the standards-setting process in Indonesia. It has also compared cognitive biases due to professionalism and religion. Furthermore, this research, is subjective based on the interpretations of the researcher who has adopted Suchman's (1995) work on legitimacy theory and has sought to gain a deeper understanding of the interviewees' experiences and different insight into people subjective states (Silverman, 1998), however, the subjectivity is commonly applied in interpretive interview study. The study focused only on adopting a single method of data collection, namely interviews, rather than using mixed methods or combining this with other methodologies.

7.4. Avenues for future research

This research has provided some insights regarding how the accounting standards-setting process has been developed and compares to conventional accounting and sharia accounting standards. There are many possibilities with regard to future studies. For instance, this research has identified that professional organisation, besides maintaining the world of profession, also maintains its status as an authorised institution in the development of accounting standards. Future research can identify how institutional complexity is perceived by accounting profession (IAI) in order to accommodate the complexity role of the accounting profession in Indonesia. In the area of Islamic accounting, there is a vast area to be investigated as a result of insufficient research into Islamic accounting. Islamic accounting should be addressed beyond previous research, for example, in the theoretical foundation of Islamic accounting but instead towards the social context (such as how Islamic accounting perceived and engaged in social development) and the effect of Islamic accounting in organisational or individual behaviour.

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Appendixes

Appendix 1. Interviewees groups and backgrounds

Number	Interviewees code	Interviewees Group	Interviewees Background	Interviewees time
1	AC.1	Academics	Academics	12 minutes
2	AC.2	Academics	Academics / member of Financial Accounting Standards Board	47 minutes
3	AC.3	Academics	Academics	20 minutes
4	AC.4	Academics	Academics / Former member of Financial Accounting Standards Board	12 minutes
5	AC.5	Academics	Academics / Former member of Financial Accounting Standards Board	20 minutes
6	AC.6	Academics	Academics / Financial Accounting Standards Board	38 minutes
7	AC.7	Academics	Academics / Former member of Financial Accounting Standards Board	18 minutes
8	AC.8	Academics	Academics / Former Bank Commisioner	22 minutes
9	G.1	Government Institution and Regulator	Top Management of Ministry of Higher Education	11 minutes
10	G.2	Government Institution and Regulator	Senior Management of Financial Services Authority / member of Financial Accounting Standards Board	22 minutes
11	G.3	Government Institution and Regulator	Senior Management of Financial Services Authority / member of Sharia Accounting Standards Board	30 minutes
12	G.4	Government Institution and Regulator	Senior Management of Financial Services Authority / member of Sharia Accounting Standards Board	23 minutes

13	G.5	Government Institution and Regulator	Senior Management of Bank of Indonesia / Former member of Sharia Accounting Standards Board	35 minutes
14	G.6	Government Institution and Regulator	Senior Management of Financial Services Authority / member of Sharia Accounting Standards Board	15 minutes
15	G.7	Government Institution and Regulator	Senior Management of Financial Service Authority / member of Sharia Accounting Standards Board	35 minutes
16	G.8	Government Institution and Regulator	Senior Management of Bankof Indonesia/ member of Sharia Accounting Standards Board	13 minutes
17	G.9	Government Institution and Regulator	Top management of IAI / Sharia Accounting Standards Board	32 minutes
18	AU.1	Industry and Audit Company	Top management of Big-four audit company	26 minutes
19	AU.2	Industry and Audit Company	Senior management of Big-four audit company	44 minutes
20	AU.3	Industry and Audit Company	Top management of Big-four audit company	19 minutes
21	AU.4	Industry and Audit Company	Top management of Big-four audit company	19 minutes
22	P.1	Industry and Audit Company	Senior management of Islamic Bank	23 minutes
23	P.2	Industry and Audit Company	Senior management of Islamic Bank	18 minutes
24	P.3	Industry and Audit Company	Top management of zakat industry	23 minutes

25	P.4	Industry and Audit Company	Top management of zakat industry	18 minutes
26	SAS.1	Sharia Accounting Scholar	Islamic accounting academics	21 minutes
27	SAS.2	Sharia Accounting Scholar	Islamic accounting academics	35 minutes
28	SAS.3	Sharia Accounting Scholar	Islamic accounting academics	20 minutes
29	SAS.4	Sharia Accounting Scholar	Islamic accounting academics	22 minutes
30	SAS.5	Sharia Accounting Scholar	Islamic accounting academics	28 minutes
31	SAS.6	Sharia Accounting Scholar	Islamic accounting academics	19 minutes
32	SI.1	Sharia Institution	Member of National Sharia Board	16 minutes
33	SI.2	Sharia Institution	Member of National Sharia Board	39 minutes
34	SI.3	Sharia Institution	Member of National Sharia Board	43 minutes