

**AN ACCOUNTING APPRAISAL OF THE
PRIVATISATION DECISION
A CASE STUDY OF INDONESIA'S
TELECOMMUNICATIONS INDUSTRY**

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By

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P R E F A C E

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CHAPTER ONE

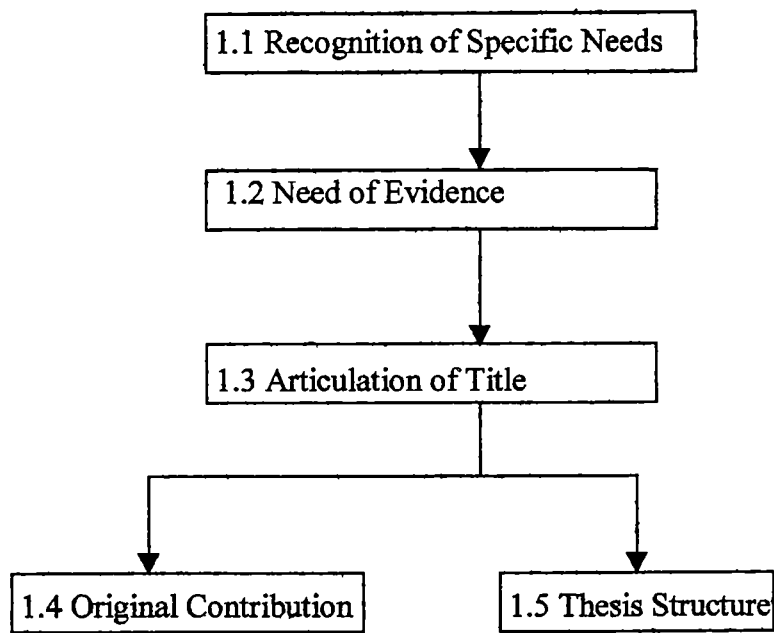
INTRODUCTION

1.0 Introduction

The recent development of accounting in Indonesia has been quite substantial. The change of accounting orientation, appointment of more accountants as CEO, the start of a litigation era and more blame for accounting work are simple examples of changes in the accounting function in Indonesia. The increased of appreciation for accountants has, however, not been accompanied by development of accounting system in Indonesia, which has been characterised by dependence on other systems and international standards.

This study explores the link between government policy, specifically privatisation, and the accounting role, from the perspective of public policy, which is discussed in terms of public administration and economy. The purpose of this chapter is to indicate the background of the study and to connect this with the process of study. In other words, it will introduce the relationship among the chapters of this thesis.

Figure 1.1
Structure of Chapter One



This chapter is begun with an exploration of Briston's law on accounting systems in developing countries. The debate among academicians is highlighted, which gave rise to a need to obtain supporting evidence (Section 1.2); this need which is met by this study in the next section (Section 1.3), the study title will be critically analysed to provide an indication of the scope of the study. This is followed by a discussion of the original contribution made by this study (Section 1.4). Finally, an overview of the Thesis Structure is presented (Section 1.5).

1.1 Recognition of Specific Needs

This section explores a debate on the need to standardise international financial reporting. The recent trend in this debate has been towards uniformity, which is supported by the International Accounting Standard Committee, the United Nations, and OECD (Fleming,1991;Wallace,1990). The requirements of the global market, such as: the New

York Stock Exchange and London Stock Exchange, have also forced many companies, especially State Owned Enterprises, in developing countries, to follow a particular system. Thus, the political economy of the global market and international institutions is directing accounting systems in developing countries toward the US, UK or IASC systems.

In contrast to the mainstream trend, Briston (1981) takes a different line. In 'The Evolution of Accounting in Developing Countries', he examined critically the development of accountancy in developing countries under the influence of American and Britain systems. He points out that:

Each country has its own political, social, economic and cultural characteristics, and it is highly probable that the goals and thus information needs of managers of the economy will differ from one country to another' (p.120)

In this statement, some key points are raised. First, each country is acknowledged as unique entity with its own system of life. This means that a specific environment is established in each country that makes particular demands of the accounting system. Second, Briston suggests listening to the manager. As an agent in the accounting process, the manager is able to provide information on 'what business needs are' and 'what accounting can provide for'. In this case, a 'bottom-up' approach is implied as the best way to set accounting standards.

Based on those ideas, Briston consequently suggested:

... each country should be encouraged not to standardize the structure and specifications of its information system, but to create a system appropriate to its own needs (ibid.)

This means that the goal of each country's accounting system is a system based on its environmental characteristics. In other words, the adoption of the UK or US system, and International Accounting Standards is only a temporary stage. Besides that, accounting can be viewed as the result of the economic reality in a certain society and, hence, capable of communicating the economic reality of that society.

Thus, Briston's law on accounting in developing countries could be expressed as:

1. The Accounting System is a result of struggles in the political, economic, social and cultural spheres in a certain society.
2. The Accounting System in certain country is a reflection of accounting functions in that country.

In Briston's (1981) study, this law was applied to the case of accounting in Sri Lanka and Tanzania, both of which had adopted the British system. By investigating accounting education and training, Briston showed the inadequacy of the British system to meet both countries' needs, by way of justification for the proposal of a more flexible system.

The key point in the law is actually about recognition of how people use accounting. In other words, Briston (1981) addressed the importance of study of the role of accounting in developing countries.

1.2 Need of Evidence

In this section, Briston's law will be related to the Indonesia case, as another source of supporting evidence. Having adopted Dutch, American and IAS systems in sequence, Indonesia could show the applicability of Briston's law to countries that adopt non-British systems. In this respect, an introduction to the accounting system in Indonesia should be given here.

In practice, the Indonesian accounting system consists not only of accounting standards, but also of regulations from the Central Bank, tax regulations, capital market regulations and industrial regulations (explored further in Chapter Six). An overlapping of many sources of regulation has created a difficulty in justifying the implementation of accounting methods and procedures. However, the dominance of accounting standards and industrial regulations was promoting a concept of professionalism in exercising accounting policy.

In this situation, the role of accounting in Indonesia is best explored in terms of accounting standards or industrial regulations. In this case, an exploration of industrial regulations is more favourable, because an exploration of industrial regulation will include general accounting standards; be linked more closely to private and public sector business practice; and allow a close investigation of accounting methods and procedures in industry. For these reasons, this study focuses on the industrial context, instead of nation-wide accounting practice.

In investigating accounting's role in the industrial context, the study will confirm itself to a representative event in industry and in turn, to a particular industry. The event concerns the relationship between the company, industry and government, and involves economic reality as main indicator. In this case, the selected event be privatisation, which began in late of 1980s and is becoming more popular in the 1990s in Indonesia. Since the telecommunication industry is so far the only privatised industry, the study focuses on accounting's role in the privatisation of the telecommunication industry.

A study in privatisation should face the facts that the Indonesian government is sensitive to failure. For this reason, the privatisation process was not transparent, produced a difficulty in releasing privatisation documents or carrying out an open investigation of the privatisation decision. The government was suspected of unorthodox practice in the listing of PT Telkom - one of the SOEs, in that memos were sent to many government agencies to buy before listing and keep the shares for at least two years. Consequently, the cost of privatisation of the telecommunication industry is hidden.

This situation directed the study towards evaluating the privatisation decision, rather than the whole process. It also prompted the utilisation of publicly reported data, such as annual reports and an organisational approach as the research perspective (explored more in Chapter Two). The approach was actually more concerned on how the interests of government - industry and SOE interacted.

1.3 Articulation of Title

The title of this study is 'An accounting appraisal of the privatisation decision: a case study of Indonesia's Telecommunications Industry'. The title can be separated into three elements: accounting appraisal, privatisation decision and Indonesia Telecommunication industry. A separate discussion of each element will indicate the exact purpose and scope of the study.

Accounting appraisal. As a phrase, this can be interpreted as meaning of evaluation from an accounting point of view. The object of evaluation is the privatisation decision (explored more as the Theoretical Framework in Chapter Two). Since the perspective is viewed from an organisational approach, a qualitative dimension is included in this process. The impact of selecting this approach is to enlarge the dimension of appraisal from accounting technique to the accounting concept in the organisational and social context.

In this study, accounting appraisal will reflect more on how accounting functions to evaluate the privatisation decision. In other words, this is a study of accounting's role in the evaluation of the privatisation decision (explored more in the Literature Review, especially Chapter Four). In line with an implementation of the organisational approach, the type of evaluation will include the product of accounting techniques, such as financial reporting, and of the organisational element, such as policy and regulations (explored more in Chapter Three).

Privatisation decision. The privatisation decision is usually taken when privatisation begins. The phrase refers to the government's claims for privatisation. This means that the privatisation decision was a political action to the State Owned Enterprise. The impact of this status was a government cultural attachment to the programme, which was linked to the national development planning and industrial policies.

The decision can be evaluated as a form of product, which is usually reported in the annual reporting of government and the companies. In government, the evaluation can be started from an evaluation of planning, which is based on regulation. This first appraisal will investigate the planning of government as an expectation, in non- - economic terms. A further appraisal can be based on statistical data. The financial reporting is an end accounting technique product, which reflects the economic reality. In this case, the second appraisal will investigate accounting technique performance pre and post privatisation (explored more in Chapter Seven and Eight).

Indonesia Telecommunication Industry. This phrase denotes the context of study; it limits the boundary of the study to the industrial context. The study will explore the boundary as background of study. In this case, the development of the telecommunication industry will be investigated in terms of the accounting role (explored more on Chapter Five), which is a broad interpretation of accounting appraisal. The investigation will include historical quantitative and qualitative economic and non-economic facts. Thus, the analysis of the accounting role is closely linked to the development of the industry.

1.4 Expected Contribution

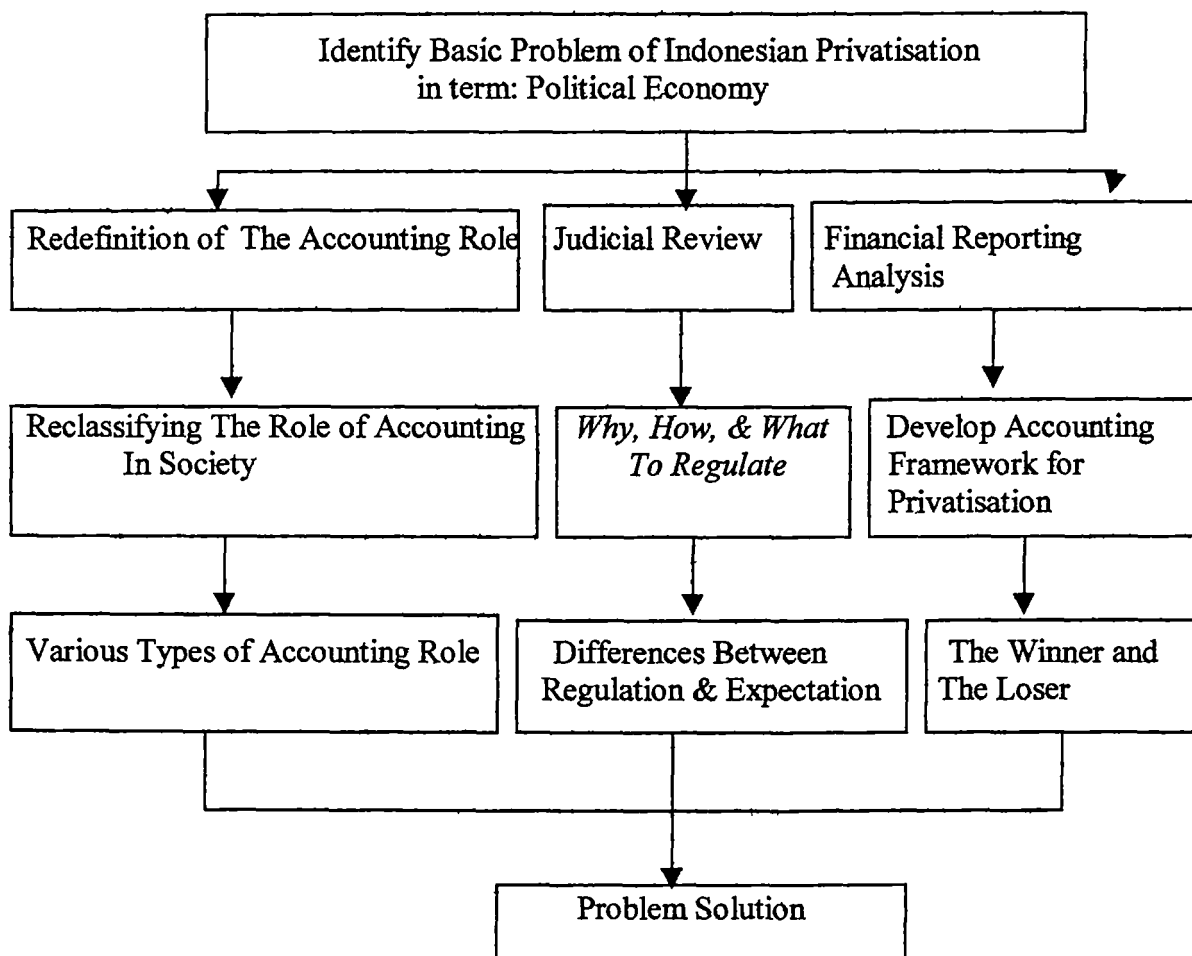
The words 'expected contribution' are common in forecasting. Before mentioning the expectation, it is better to clarify the 'criteria' of contribution for this study. Here, the criteria for contribution can be defined as a realistic expectation that is indicated by utility, understandability and acceptability criteria. Utility concerns implementation of the contribution, whether it is marketable or applicable. In this study, the contribution should have a market value indicated by the impact on business mechanisms or transactions. At the same time, the contribution might be applied in business practice. This means that the contribution is useful for management to increase the company's competitive advantages.

The criterion 'understandability' is about the communication of ideas behind the contribution. In this study, the implementation of the organisational approach, political economy, is offered as an alternative perspective to get an insight into a problem. To be able to communicate the contribution, management should have a sense of political economy in their decision process, which means an inquiry to evaluate management. This means persuasive two-way communication is needed.

Acceptability is about the response of all agents in the organisation, to the contribution. In this study, validity and reliability are used as indicators of the research quality. On the other hand, the professional attitude of the researcher will be reflected in the quality of

the contribution. Here, fair and objective investigation and analysis can be norms for professionalism. So, getting a positive response begins with maintaining quality and a professional attitude in the research process. By understanding these criteria of contribution, it is possible to indicate the expected original contribution.

Figure 1.2
The Expected Original Contribution



An accounting appraisal of the privatisation decision can be interpreted as a study of privatisation itself. The scope of the research will go through the whole process of privatisation, which affects all agents of privatisation and activities. This means that the

area of the role of accounting study can be defined as the context in which accounting operates.

Each aspect of organisation can be seen from an accounting perspective. The study of the role of accounting in privatisation can be interpreted as a way to learn about privatisation itself. This means that the main finding of studying privatisation should be a solution to the privatisation problem.

In figure 1.2, the expected contribution begins with an identification of the basic problem in Indonesia's privatisation. To identify the basic problem, the study implements a political economy approach. (See Chapter Two - Theoretical Framework) So, a redefinition of the role of accounting concept and analysis tools is needed.

A redefinition of the accounting role is explored in Part One - Literature Review. In that part, literature research is utilised to explore how people portray accounting in various books, journals and magazines. A reclassification of the accounting role will be suggested as a conceptual contribution of the research. The study will implement the concept to consist the history of accounting's role in Indonesia's telecommunication industry, in order to clarify the boundaries of accounting in industry. This Literature Review part will be strengthened by applying the new concept of the role of accounting to Indonesia. So, Part One will identify the boundaries of the concept in industry and the accounting field, which promotes a contribution in the theory of accounting policy, and accounting at the industrial and national levels.

As a consequence of the research approach, in Part Two, analysis of the privatisation regulation and financial reports will be utilised to examine the role of accounting in telecommunication privatisation. With regard to the regulation, the study critically examines 'why, how and what to regulate', leading to an understanding of the differences between the regulation and society's perception of privatisation. On the financial reporting side, the accounting framework for privatisation should be developed to identify the impact of privatisation process. The outcome of the accounting analysis is an identification of the winner and loser. So, Part Two will contribute some analytical concepts and technical frameworks on privatisation. These contributions will be a technical concept to implement the role of accounting.

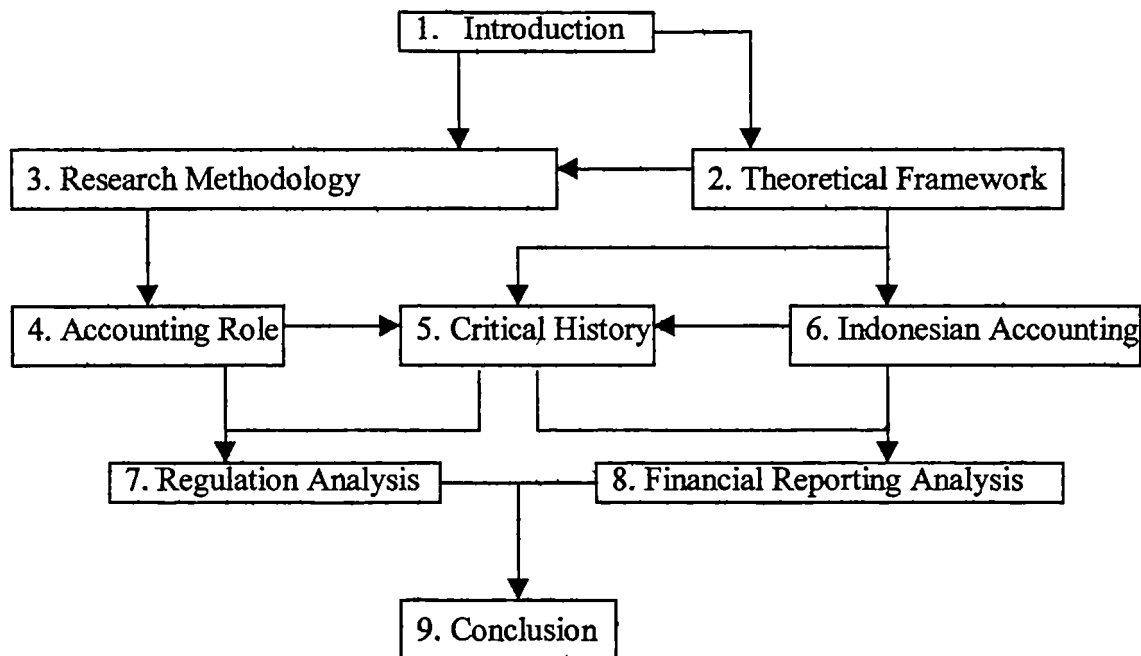
Whole process of identifying the basic problem of privatisation will be ended by a suggestion to solve the privatisation problem (See Chapter Nine - Conclusion). The conclusion will explore how the suggestion can be implemented in the form of privatisation policy.

1.5 Thesis Structure

This thesis consists of nine chapters. The first three chapters provide the foundation of the research: introduction, theoretical framework and research methodology. The next chapters can be divided into the Literature Review part and the Empirical Analysis part. In the literature review, an in-depth library study is reported, in order to gain an insight

into the accounting role, history of telecommunication and contemporary stage of Indonesian accounting.

Figure 1.3
Thesis Structure



The critical analysis of research method, theoretical framework and literature review produced some preliminary findings, such as some limitations in the development of accounting in the context of Indonesian telecommunication. At this stage, empirical investigation was needed to continue and synthesise all findings into an answer to the research question. Financial reporting and regulation were explored by means of interview, documents and public reports in telecommunication industry. In the light of the investigation and analysis, a synthesis of the answers to the research questions and other findings are produced. Finally, the whole process of study is summarised in the Conclusion chapter. Below are the details of each chapter.

CHAPTER ONE - INTRODUCTION. In this chapter, the idea of the study is introduced, in order to show the originality of study. Besides that, the relationship between chapters is explained.

CHAPTER TWO – THEORETICAL FRAMEWORK. The theoretical framework refers to the direction and context of the research. In this case, privatisation is the main focus of study, which influences the rest of the chapters. Since the focus is closely related to the context, the research will benefit from clear delimitation of the scope of the study.

CHAPTER THREE – RESEARCH METHODOLOGY. The understanding gained from the previous chapter led to the decision as to how to carry out the research. In this chapter, details of the research are given. The research location, schedule, sample, data collection tools and analysis tools are reported to give a clear guide as to how the study was done.

PART ONE – LITERATURE REVIEW.

CHAPTER FOUR – THE ROLE OF ACCOUNTING. An in-depth understanding of the role of accounting was important to provide a framework for analysis. By reclassifying accounting functions, this chapter provides a new basis for analysing accounting policy at the micro and macro levels.

CHAPTER FIVE – THE HISTORY OF TELECOMMUNICATION: AN ACCOUNTING ROLE PERSPECTIVE. A critical understanding of the history of the telecommunication industry from the ancient kingdom until 1993 is presented to legitimise the existence of privatisation. Since the accounting role is taken as the guiding perspective, the accounting facts and evidences are arranged to tell the story of the development of the telecommunication industry.

CHAPTER SIX –THE DEVELOPMENT OF ACCOUNTING ROLE IN INDONESIA. The understanding of Indonesian accounting requires consideration of the macro perspective. The development of accounting in industry cannot be separated from the development of Indonesian accounting as a whole.

PART TWO – ANALYSIS.

CHAPTER SEVEN – REVIEW OF PRIVATISATION REGULATION: ACCOUNTING ROLE PERSPECTIVE. Since privatisation is a public policy, promulgated through regulation, a critical review of regulation is necessary. This also contributes to the political economy background of study. This chapter provides an appraisal for macro policy of privatisation in Indonesia.

CHAPTER EIGHT – FINANCIAL REPORTING ANALYSIS. The analysis of public reporting provides empirical evidence of privatisation's performance and impact. This

chapter provides a specific accounting framework to analyse the data in the annual reports of PT. TELKOM and PT. INDOSAT.

CHAPTER NINE – CONCLUSION. The whole process of study is briefly reviewed in this chapter. Ideas for further research are presented in the paragraphs on future opportunities. Besides that, the answers to the research questions are explicitly stated. Finally, the implications of this study for future research are highlighted.

CHAPTER TWO: THEORETICAL FRAMEWORK

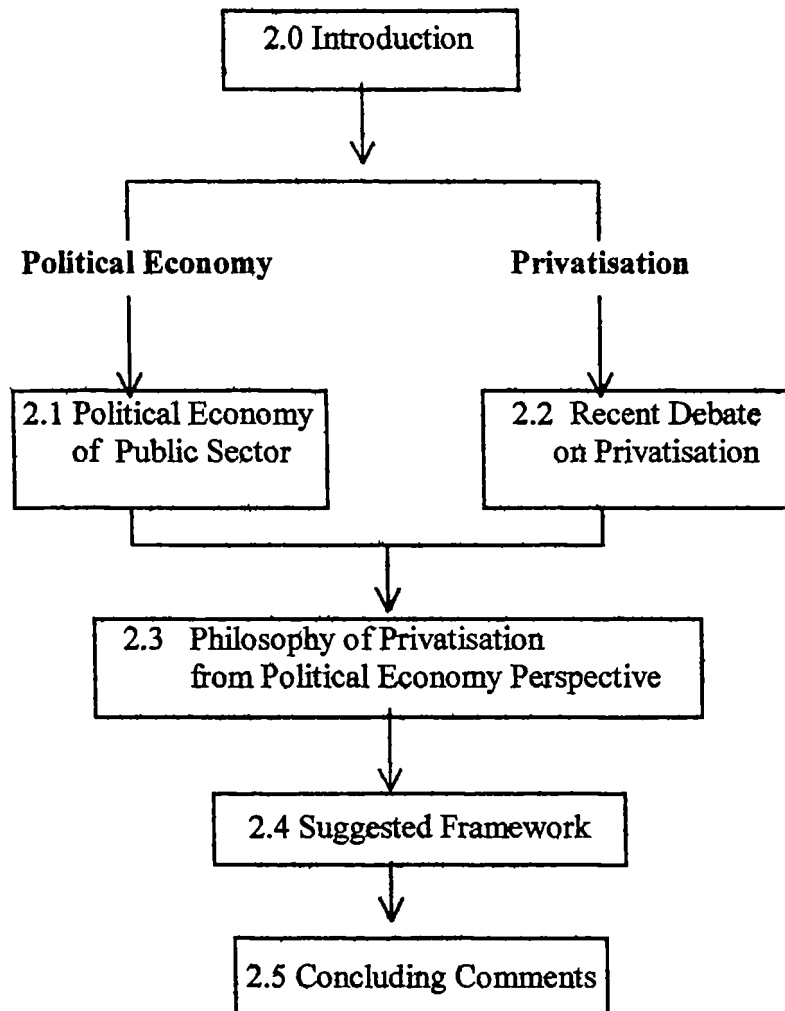
2.0 Introduction

The belief in public benefit from government - owned enterprise has been questioned in recent years (Foster,1994;Galal et. al, 1994) and many governments have come to rely upon market forces, reflected in a belief in privatisation.

As a consequence, the privatisation movement has spread to many countries (Smith & Staple, 1994;World Bank,1992), based on the assumption that privatisation is a general prescription for the ills of nationalised industries.ⁱ Privatisation has been proposed as a prescription for better welfare, in the view of international institutions, such as the World Bank and IMF. Thus, privatisation has come to be an ideology as well as a business strategy.ⁱⁱ

The objective of this chapter is to develop an insight into privatisation practice. Some initial questions can be listed. How is privatisation treated in different backgrounds or perspectives? Is it possible to implement a political economy approach? If it is possible, how can we develop an integrated understanding of the privatisation phenomenon?

Figure 2.1
Structure of Chapter Two



The discussion of the theoretical framework can be divided into two main aspects: political economy and privatisation. Within political economy, the discussion will be mainly about the theoretical background of political economy, particularly with regard to the public sector in less developed countries (Section 2.1). This section will intersect with a study of privatisation and an attempt to build a privatisation framework within a

political economy perspective. Two specific sections, basic philosophy (Section 2.3) and suggested framework (Section 2.4), will provide the foundation for the framework. The process of building this theoretical framework will be concluded in Section 2.5.

Political Economy

Political economy has a major role to play in this study. Its main emphasis is upon the real world, and it is thus necessarily complex and involves considerable difficulties in separating different factors. Because of this complexity, any research has to be limited to certain key areas. In this study, a particular focus is on political economy, because privatisation is about public policy in industry, so it involves the government, industry and companies, which interact mainly in the areas of politics and economy. Privatisation can best be analysed in terms of the interacting interest of these three agents, in other words, from political, economy or political economy perspectives.

The adoption of the political economy approach has implications for the way that the research can be used. Had the main objective been to influence the attitude of people, a psychological or socio-cultural approach would have been appropriate. Where the purpose is to influence government policy on industrial development, political, economics or political economy approach is preferred.

Research starts with a concept and progresses to a practical stage involving research planning, data collection and data analysis. In this research, the dimensions of politics and economy will especially influence all the research stages, i.e. all the research

phenomena will be viewed from a political, economic or political economy frame perspective. The question now arises, which is more appropriate, to deal with politics and economy separately, or to take a political economy approach? By looking more closely at the concepts involved, it may be possible to arrive at an answer. Politics has been defined to mean "who gets what, when and how" (Lasswell, 1936), 'the struggle for the power' (Morgenthau, 1960), 'the art and science of government', 'the socialisation of conflict' (Schattschneider, 1960), 'the authoritative allocation of values' (Easton, 1981) and 'the conciliation of conflicting interest through public policy' (Crick, 1964). Power, authority, public life, government, conflict and conflict resolution are tied up with an understanding of politics. From these definitions, three ideas of politics that make sense, have some coherence, and have potential for connections with economics are suggested.

First, politics as government. Government here is the formal political machinery of the country as a whole, its institutions, laws, public policies and key actors. Politics refers to the activities, processes and structures of government. This means that politics as a government approach can be defined in terms of organisation, rules and agency. 'Organisation' refers to relatively concrete structures (formal organisation), such as courts, legislatures and political parties. 'Rules' refers to rights and obligations as well as permissible procedures and strategies to be employed in the political process. Finally, government includes agents or personnel. As a conclusion, the 'politics as government' approach places government at the centre and evaluates other phenomena in terms of government's influence.

The second is politics as public. One way of thinking about economics and politics is to link economics to what is private, and politics with the public. Here, a difficulty arises. This approach offers a way to formulate a relationship between people in business and people in politics. People in business will deal with anything related to private life and people in politics will work with public interest. This means that politics is limited to public policy. So, economics and politics intersect when public policies impact on private life. This approach, however, faces the fundamental difficulty of distinguishing the boundary between public and private domains.

The third approach is the authoritative allocation of value. According to this concept, politics and economics are similar in that both are methods of allocation. The economic and the political processes are alternative ways of making allocations of scarce resources. Politics refers not to the formal structure of government but to a distinctive way of making decisions about producing and distributing resources. Unlike economics, which emphasises juridically voluntary exchange, the system of political allocation involves authority. This difference in mode of allocation may reflect differences in the types of good being pursued (example: excludable versus non-excludable) as well as the normative criteria governing interaction (such as self-interest versus collective interest).

The above approaches can be viewed as essentially different and can, when elaborated, take us in different directions. The politics - as - government approach relies on a particular institution; politics as affairs of the public relies on the specification of a non-institutional realm outside of private exchange; and the authority focus depends on a

certain way of making decisions and of securing compliance. Each conception has its 'home domain', its core concepts, its notions of what is centrally political, and its often implicit rules about what is outside the political arena.

Having explored what is meant by politics, let us now consider the political dimension. As with politics, so far economics, three interpretations will be put forward to show how economics has been viewed in society. First, economic calculation. The first meaning of 'economic' directs our attention to a way of thinking and an associated orientation of the individual to the world. Economic calculation is a way of utilising what is available, given wants. It is a way of judging institutional arrangements for using available means according to how well wants are satisfied. This approach views its subject matter in terms such as efficiency and constrained choice. Greater efficiency means that people's wants are satisfied better.

Second, material provisioning. This usage of economics characterises earlier thinking about economic activity from Aristotle to Adam Smith and Karl Marx. 'Economics', here, refers to a kind of activity, defined not according to its mode of calculation, but according to its purpose: the production and reproduction of goods, or the material provisioning of wants. This means that economic activity is equal to the 'material life process of society' (Sahlins,1972) and is concerned with the 'material substantive, things that sustained human beings' (Polanyi,1957).

The third usage of the term 'economics', refers to the economy, as a socially and

historically specific institution. This institution has a social purpose. This means that while individuals may not necessarily find full satisfaction, the economy maximises individual wants. According to this approach, the private property and contract mechanism reflects the balance between individual satisfaction and externalities. The maximum stage of the mechanism does not always coincide with the maximum satisfaction of the individual.

In the above discussion, the meanings of economics and politics as separate terms have been discussed. In what follows, 'political economy' as a compound term, will be examined. When we use 'economic' in the sense of economic calculation, then politics becomes one place to apply such calculation. Economics is a way of acting, politics is a place to act. One result of placing emphasis on economic calculation is that economics tends to dominate. Politics, here, simply describes the context. The use of economic in the sense of calculation works against the idea of the separation of the economic from the political.

The idea of material provisioning, in contrast, tends to limit the scope of the economic and thus allow for a meaningful separation of economic activity from political. The same can be said of the 'economy' approach. This means that the political economy approach is only suitable in relation to the 'economic calculation' view of economics.

Our understanding of the meaning of political economy leads us to choose a political economy approach, instead of separating the political and economic dimensions. Since

the study has an accounting focus, the economic calculation perspective is predominant. Besides that, accounting influences society both politically and economically, and it is difficult to distinguish between the two spheres of interest, as can be seen in the mixture of the political and the economic involved in financial reporting. Thus, we conclude that the political economy is more suitable in this study.

2.1 Political Economy of Public Sector in Less Developed Countries

The average contribution public enterprises to GDP in Less Developed Countries (LDCs) rose from 7 percents at the beginning of the 1970s to about 10 percents at the end of decade. There is, however, wide variation among countries. In Indonesia, it is more than 60%, because the National Oil Company alone contributes more than 55% of GDP. Besides that, in most LDCs, the share of public investment in total gross fixed capital formation exceeds 25 percent, and in some cases accounts for more than 60 per cent of total investment (Short,1984).

Public enterprises are found in almost all types of economic activity in LDCs. They are traditionally concentrated in the public utilities and natural resources sectors, but are also prominent in manufacturing in a large number of countries. For example, 65 per cent of manufacturing value added is generated in public enterprises in Egypt, 60 per cent in Tunisia and 50 per cent in Zambia. In general, the public enterprise sector appears to be more prominent in the manufacturing sector in the LDCs than the industrial countries; in the early 1980s, it was found to account for 34% of manufacturing in LDCs, compared with only 23% in industrially developed countries.

A number of reasons have been put forward to support the establishment of public enterprise. Most of these reasons are related to economic growth. First, when private sector activity is constrained by high-risk aversion, poorly developed financial markets or a paucity of information, 'entrepreneurial substitution' has been a motive for establishing public enterprise. Second, in economies characterised by limited integration between different sectors, public investment can perform the role of ensuring that the necessary conditions for industrial growth are met. Third, where the growth of the economy is constrained by inadequate savings, the public enterprise sector may be seen as a potential source of investible surplus. In addition, public enterprises have often been established and used as instruments for distributional goals. Besides these reasons, various 'non economic' considerations have influenced the decision to establish public enterprises in many LDCs, such as ideology and the desire to provide a counterweight to foreign ownership.

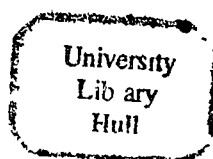
Public Enterprise Performance

It is widely believed that in most developing countries, the performance of the public enterprise sector has been unfavourable. Originally, public enterprises were established to lead the LDCs' industrialisation, to generate public savings for investment and growth, and to achieve social and redistributive goals. In the 1980s-1990s, however they performed poorly, as indicated by following comments:

In many countries, the expansion of the public sector has stretched its managerial capacity to the point where serious inefficiencies result. (World Bank, 1992, p.46)

Attention has therefore been directed to the importance of evaluation. The performance of a public enterprise, however, is difficult to measure. Objectives are seldom specified in a clear and unambiguous way, and may be mutually inconsistent. Similar problems arise in comparing the performance of public and private enterprises. Public and private enterprises operate under different market conditions, or are required to work under different operational criteria.

In the light of the evaluation debate, various ways to analyse the performance of public enterprises have been suggested. Economic performance, financial performance and distribution performance are suggested as three criteria of evaluation. With regard to economic performance, the criterion of productive (technical) efficiency has been suggested as the instrument to compare the performance of public and private enterprise in LDCs. The evidence on productive efficiency performance, however, is inconclusive; it does not demonstrate that public enterprises in LDCs are always outperformed by private enterprises (Milward and Parker, 1983). It is pointed out that the important thing is not to compare between private and public enterprise, but to identify the major source of inefficiency and to devise appropriate policy initiatives to improve economic performance. Various reasons for inefficiency are cited. Political interference is argued in most analyses of public enterprises to be the main cause of inefficiency. In many LDCs, the public enterprise is an important instrument for political patronage. Executives are frequently political appointees with little industrial management experience; employment, purchasing and pricing decisions are subject to political intervention; the boundaries of government and enterprise control are ill defined and continually



shifting. Another factor is a failure to set specific objectives for the public enterprise, which leads to difficulty in monitoring the efficiency of management. Most public enterprises are established to promote the scale of operation, instead of profit. Management, therefore, tend to 'enjoy the quiet life', instead of competing to achieve high levels of profitability. In addition to the two previous factors, the public enterprise may fail to achieve allocative efficiency if it operates in a monopoly environment, where there is little incentive to respond to market demand.

With regard to financial performance, public enterprises are criticised for failure to generate an investible surplus, instead creating a budgetary burden for the public sector. In mid 1970s, the overall deficit of public enterprises in LDCs averaged almost 4 per cent of GDP, as compared to 1.7 per cent in the industrial countries (Short, 1984). These deficits were financed either by borrowing in domestic and international financial markets or by central government transfers. These financing demands have a direct effect on macro economic variables and performance. Even though the effects vary, the magnitude of the deficit has contributed significantly to inflation and balance of payments difficulties (IMF, 1986).

With regard to distributional performance, public enterprises in LDCs are often expected to pursue social objectives, such as subsidising particular consumer groups, assisting certain regions and creating or maintaining employment. This means consideration must be given to the public enterprise sector's performance in fulfilling 'non-economic' objectives. Many studies support the view that public enterprises have failed to realise

their redistributive goals. For example, Sobhan (1983) found that 75 per cent of the public sector's manufactured output in Bangladesh was subject to price controls, below the market-clearing price.

From the above discussion, it seems that the adoption of political economy approach to the public sector is challenging and promising. It opens many insights into the relationship between the enterprise and the state, between the enterprise and industry, and between the industry and the state. In other words, it strengthens the understanding of public policy.

Privatisation

Privatisation is a matter of public policy, which means it can appropriately be viewed from a political economy standpoint. Such an approach sees the influence of accounting as going beyond its traditional boundary; the function of accounting is not only to record, but also to reflect social phenomena. Adopting this approach, we begin with an account of the current debate on privatisation. The interaction between privatisation and political economy will be explored in Section 2.3 and Section 2.4.

2.2 The Recent Debate

Privatisation policy is related to the government's business role. In the literature, the debate about this role can be classified as two extremes: the United Kingdom and United States of America perspectivesⁱⁱⁱ (Henig, 1989). In UK government, business is assumed to be a part of administration (Beesley & Littlechild, 1983). On the other hand, the US

government assumed their business as the people's. This means that the government's role is that of facilitator and organiser. Both extremes, with their different backgrounds have enriched privatisation theory. Below, the contribution of each perspective will be explored.

US Perspective

In the USA, the first calls for privatisation came from the private sector, which dominates the US economy. The calls of people in private business for better management to serve the public, came at a time when the budget burden of public service was increasing, and a major reform of government was being proposed by academicians. The coincidence of interest among the public, the business community and academicians produced a self-conscious movement towards privatisation in the mid-1980s.

The US government based their actions on the ground of public policy, viewing the economy as a main stimulus to the need for privatisation. Privatisation actually arose from a need to rebuild local government practice. The federal government's effort to decentralise its economic responsibility was reflected in public services at the federal and local levels. Thus decentralisation and freedoms for public enterprise were determined by public policy. Freedom for public enterprise has been mentioned as the substance of privatisation (Swan,1988).

It seems that, in the USA, the government was the main actor, though in fact, intellectuals especially economists, had already laid the groundwork for privatisation over a period

of many years, in which they argued that societal conditions are produced by government actions. This belief is explicitly stated in the book, *Capitalism, Freedom and Democracy* (Friedman, 1962), in which Government's behaviour is contrasted with economic behaviour. Friedman (1962) placed the dynamics of government as a subset of the economic process that gave economic theory the capability to refurbish laissez faire philosophy. Government intervention was allowed. Besides that, redefinition of local government practice was necessary. Thus, there have been at least three basic themes of privatisation in US.

The first theme is the analogy between government and private monopolies. Government was characterised as a public monopoly. The exercise of public monopoly is closely associated with inefficiency, unresponsiveness and waste, on the part of internal management. In the view of economists, this monopoly character gave rise to the possibility of applying micro economic analysis which would strengthen economic theory's role in public policy (Webb, 1973). In other words, the monopoly characteristic of government caused an increase in the hegemony of economic theory.

The second theme is that government regulation is anti-consumer in effect. This theme refers to the fact that generally, regulation reflects the interest of large businesses or professional groups, which tend to influence legislators towards licensing and regulatory burdens on new and small entrants, legitimating action to reduce competition in industry. However, such action may not be in the consumer interest. The consumer is only an object of the product. So, the cumulative power of consumers is necessary to influence

the legislators. The government, here, acted to co-ordinate consumer interest. In this case, the accusation that government was anti consumer could be considered as a preventive warning.

The third theme is the distinction between government responsibility and government provision. The former is about government's responsibility for managing public goods, a notion closely related to the government's practice. The latter is about how government set their terms for meeting public needs. This means a standardisation of public service. The question will be, 'is the standard fulfilled by government's practice?'. If not it is argued, the bias is caused by the nature of 'public goods' and market distortions. Economists view such bias as a result of discrete transactions among self - interested individuals often the politicians and bureaucrats who implement public policy.

Considering those themes, the possibility of building a privatisation theory was raised. Friedman (1962) suggested three elements of theoretical infrastructure for privatisation; first, a revisionist interpretation of the origin and maintenance of the welfare state that accounted for government programmes and regulations by self-interested bureaucrats and politicians; second, a formalised theory; third, in vouchers, a proposed mechanism for moving away from governmental provision of services without necessarily denouncing governmental responsibility. This theory was implemented by exploring micro economic theory in a public policy context. However, the theory of privatisation remained isolated from American politics and policy. The legitimisation of the idea of privatisation required evidence that market forces would produce public good. In the US context,

the first step to producing that evidence was to reconceptualise existing governmental practices. Ahlbrandt (1973) and Savas (1974) delivered the first evidence, in their studies about fire protection services in Arizona and urban services in New York. Their astonishing findings prompted reconsideration of the difference between public and private performance.

The process of induction got serious in President Reagan's administration (Swan,1988). The US government formulated a proposal reflecting the kind of privatisation practice taking place in Great Britain. Several elements marked privatisation as a serious policy on the government agenda. The first was the sale of a wide range of governmental assets, like CONRAIL and AMTRAK. Second, the government adopted the unfamiliar term 'privatisation', along with the argument that privatisation simply represented an adoption of private means to pursue public goals. Third, the proposal linked sales of assets with a broad array of alternative techniques. The concept identified contracting out, grants and subsidies, tax incentives, deregulation, vouchers, franchises and divestitures as techniques. At the end of their proposal, the administration drew clear and implicit analogies to the British experience, claiming that Margaret Thatcher's administration already had demonstrated the economic feasibility and political popularity of privatisation.

The proposal brought privatisation theory to maturity and placed privatisation as a major issue on the national agenda. Indicators of the maturation of policy theory include the joining of economic theory, a catalogue of techniques, reinterpretation of past practice,

and a political strategy for institutionalising change. These indicators presented a recognition of the importance of political as well as economic interest.

The development of privatisation theory is dependent on its appropriateness to privatisation practice. The greater its ability to deal with the reality of politics and policy, the more advanced is the theory. According to Friedman (1962), relevance to the government provision will lead the development of privatisation theory. Besides, as times have changed, a more flexible interpretation has grown up. In other words, a modest interpretation is needed in order to put privatisation theory into practice.

UK Perspective

In contrast to the US situation, privatisation in the UK is pushed by government initiatives (Marsh,1991). In 1979, the government transferred from the Labour to the Conservative Party. The Thatcher administration favoured monetarist approach to organising the economy, whereby the administration focused on controlling the money supply, reducing public expenditure and cutting income tax. This means that economic policy was driven by ideological belief, rather than economic assessment.

The ideology was associated with multiple objectives: economic freedom, efficiency and wider share ownership (Clarke,1993). Economic freedom, here, means that the management of privatised corporations would be free to invest in market opportunities and the consumer free to choose. This freedom was expected to lead to efficiency, stemming from the disciplines of the product and capital market, and the profit

incentive. However, an ideology needs to be shared by the majority in the community. In this case, wider share ownership was promoted, in order to create popular capitalism (Rowthorn & Chang,1993).

The impact of the elaboration of ideology into objectives produced government policies which were driven by a desire to finance existing expenditure / tax cuts through mechanisms that reduced the public sector's net worth and disguised the true fiscal deficit (Marsh,1991). Thatcherism resolved the conflict between denationalisation and the promotion, through liberalisation of competition, by privatisation, which meant a call for the extension of individual share ownership.

The administration saw denationalisation as a way to face competition. This argument was based on a budgetary point of view. It was argued that denationalisation is a step to greater efficiency, since it brings entries close to the market, and so requires the management to compete with other companies in the industry. The performance standard is shifted from a government to a market standard. This shift propels denationalisation towards a faster elimination of uneconomic capacity. In the case that government performance is lower than the market standard, there will be a reduction of unnecessary ineffective and inefficient activities. The last argument from the budgetary point of view is that denationalisation-eliminated claims upon the government budget, from the government enterprises.

In the UK, the privatisation concept has been translated into more practical concerns

(Jones, 1993) about competition policy, corporate disclosure and corporate ownership patterns. The vision of competition is explored to understand the future of industry. Calculation of the strength and type of competition is important to determine the most practical route to privatisation. The right choice of privatisation form will deliver the right strategy to face competition (Smith & Staple, 1994). In the case of investment projects as a type of privatisation, management will face the challenge of technology, instead of ownership. The sacrifice and risk are low. However, changes of business environment should prompt consideration of other forms of privatisation. For example, when funding is related to international finance, it is better to use asset sales, like stock exchange. When it is only to create supporting condition for the growth of industry, deregulation will be the answer.

That pragmatic route was formalised by corporate disclosure, in which the management policy and their analysis are explicitly set out. Disclosure can reflect the conditions before and after privatisation. Besides that, it can explicitly state whether management have fulfilled the requirements of government or other bodies. In this respect, corporate disclosure is a way in which management can communicate with society before, during and after privatisation and for external bodies, it has become a formal guide by which management can be evaluated.

The last concern is about the corporate ownership pattern, i.e. the composition of corporate shareholders. In this context, privatisation is similar to selling corporate stock on the capital market. The popular term is 'go public'. The pattern of ownership has

become one of more people's involvement, more stock issued and a more complex accountability process. In the societal sense, the corporations have become more democratic (Rowthorn and Chang,1993), meaning more open and directly accountable to the public. So, privatisation has changed the accountability orientation from government and limited shareholders to public ownership.

In practice, the administration implemented a regulatory approach to stimulate privatisation (Wellenius & Stern,1994; Harris and Milkis,1996). They restricted prices by means of the formula $RPI - X$, which means the prices of public utilities, products and services were adjusted to the rate of inflation minus x percent. This formula provides an incentive to reduce cost and to innovate.

Above, we have presented a critical description of the UK privatisation process. Behind that story, there were some threats. Administrators were becoming conscious that the main point of privatisation is to shift motivations of management towards profit making. It adversely affects willingness to provide some services for uneconomic bodies. Moreover, management should consider the future of their employees when the privatisation process is started. These negative sides of privatisation can be ameliorated, however, if the government is able to choose and control the appropriate privatisation method.

Comparative Analysis

The UK and US experiences in privatisation were different in sequence and in emphases. The two perspectives are actually complementary. Both perspectives have enriched the privatisation theory. Besides that, both made people aware that privatisation is a way of managing the national economy.

The differences between the UK and US start with the fundamental philosophy. For the UK, the philosophy was Thatcherism as a political ideology, which influenced the themes of government policy: such as economic freedom, efficiency and wider share ownership. These ideas spread among people, so the motivation to privatisation arose from political consensus. On the other hand, the philosophy of privatisation in US was based on economic theory. It was established by academician, especially economists. The study of economy in government led to a study of the failure of big government. From that point, the themes of privatisation were raised: big government, government regulation, and, government provision. These themes made privatisation a matter of public policy in the US context.

The impact of privatisation has gone along with the implementation of the concept. In the US, privatisation has become a part of political strategy. The theory led to a re-conceptualising of existing governmental practice, and hence to the appropriate method of privatisation: the regulation approach. On the other hand, in the UK, the implementation was more detailed and pragmatic. The administration offered alternative ways to implement privatisation: asset sales, deregulation, contracting out work,

private provision works, investment projects, reduction of subsidies and council house sales. These alternatives can be carried out separately or in combination. In the implementation process, the government role is only as that of a regulator and its concern is only for price restriction.

Despite these differences, however, there are also similarities. Privatisation generally changed management attitude toward profit making, because profit tends to be shareholders' main concern. However, this does not mean there are no other concerns. Since privatisation also promotes shareholders' democracy, management should be prepared for any difference in the focus of shareholders. This means that privatisation demands more management concern.

Both the US and UK perspectives have contributed to the privatisation concept. The US has contributed more on the side of economic and regulation theory; the UK on developing privatisation as pragmatic concept. Thus, these differences are complementary. As we understand it, the UK perspective has a tendency to be too simplistic. On the other hand, the focus of the US is often biased.

Finally, the UK and US perspectives agree that privatisation is a matter of political economy. The UK emphasises the economic side, while the US lays more stress on the political side. Both show that the impacts of politics on economy and vice versa arise as main issues in privatisation; privatisation is actually a method of managing the economy.

2.3 Philosophy of Privatisation from a Political Economy Perspective

The understanding of privatisation as a matter of political economy leads to the idea of reconstructing the theory. Since privatisation theory is still in its early stages, a contribution from political economy will be a significant one. The US practice contributed from the economic theory side, while the UK took a more pragmatic approach. The question is whether either or both can provide a pattern of privatisation for other countries. It is possible to learn from others by learning their theory, and by observation. In this section, we provide the foundation for a privatisation framework within a political economy perspective.

In previous sections, it was shown that privatisation can be approached in terms of governmental issues and economic policy issues. From a governmental perspective, privatisation is explored to restructure ways of serving the public (Goodman & Loveman, 1991). It involves de-centralisation, control and optimisation of economic capacity. On the policy issue, privatisation is exercised to multiply economic growth, which, here, means how people's need can be fulfilled better. In other words, the main point of privatisation is managing people's need.

From this point, we started to develop a new way to see the privatisation problem. The fundamental issue in privatisation is people's need (ibid.). On the other hand, political economy is essentially about how to distribute resources (Caporaso & Levine, 1992). It is closely related to 'producing and arranging people's need'. This means that to develop

a political economy perspective on privatisation, it is best to start with critical analysis of people's need. So, this section will be about need and alternative ways of meeting it, in terms of the appropriate roles for government (public sector) and private sector. Both sectors have a duty to manage resources to meet people's need. So, a critical understanding of the management network can be suggested as the basis of a framework for analysis of privatisation.

Need

It has been concluded that privatisation arises from management of people's need. In this subsection, the people's need will be examined in terms of the nature of need itself and how people respond to the nature of the need. This involves classifying needs and exploring the essential issue of managing resources.

In general, need is classified in terms of goods and services. This general classification stems from the kind of product available in the market. However, this classification is too simplistic; it does not reflect the management process of producing and arranging 'need'. So, two important concepts of people's need, exclusion and consumption, are investigated, in order to find a way to reclassify the need (Vincent & Ostrom, 1977).

Exclusion and consumption are related to the matching of seller and buyer. Exclusion is a condition in which potential users of services and goods can be denied. The condition here is set by potential suppliers, and is attached to cost, instead of logic. So, the feasibility or in-feasibility of exclusion is determined by relatively low or high range of

cost. On the other hand, consumption is a condition in which services and goods are used. The condition here is set by joint and individual consumers, and is attached to logic, instead of cost.

Based on the above concepts, a new classification of goods and services can be suggested. From a management perspective, the questions that arise in relation to goods and services are whether or not the need will be produced at all and what are the necessary conditions to ensure that the goods and services will be supplied. Both questions can be reflected in a schema that combines feasible and in-feasible exclusion, and individual and group consumption. The new classification can be:

1. Purely **individually** consumed goods for which exclusion is completely **feasible**.
2. Purely **jointly** consumed goods for which exclusion is completely **feasible**.
3. Purely **individually** consumed goods for which exclusion is completely **infeasible**.
4. Purely **jointly** consumed goods for which exclusion is completely **infeasible**.

Our classification does not stop at this point. The four classifications should be renamed as groups of need. In the first group, the sense of individual consumption is quite clear. The private character of the first group makes the commercial transaction a bridge to obtain goods and services. The first group can be called Private Goods.

In the second group, the sense of joint consumption is the key point. However, the suppliers still set the conditions. This means that the consumers have to perform a commercial transaction to obtain the goods and services. The second group can be renamed Toll Goods, which means that to get the services, the consumer should pay

something.

The third group, like the first, is concerned with individual consumption, the difference being that in this third group, suppliers do not have influence. This means that individuals can obtain the services without any obligation. The character of the goods is common, and, the suppliers do not handle any restriction. So, the third group can be renamed, Common Goods.

The last group, is characterised by collectivity and common access. This makes this group a free group. It can be called, Collective Goods. The characteristics of our classification are summarised below:

Figure 2.2
Classification of Goods and Services

	Easy to deny condition	Difficult to deny condition
Individual Consumption	Private Goods	Common Goods
Joint Consumption	Toll Goods	Collective Goods

Under easy to deny conditions, private goods and toll goods can be supplied by the market. In these types, collective action plays a minor role, especially to establish ground rules for market transaction. Under difficult to deny conditions, common goods and collective goods require collective action to ensure the supply of goods and services. From our discussion, the government, here, plays a greater role in relation to the

collective and common goods.

After reclassifying need, the next fundamental issue in privatisation is collective action. Collective action can be interpreted as a group movement to fulfil people's need. It is necessary to 1)decide which private and toll goods are to be defined as worthy goods; 2)decide on the level of supply; and, 3)decide the price of goods. This means that the essence of collective action consists of making decisions and raising money. The first is represented by a political consensus to decide which goods and which level of supply are desired, while the second is represented by the setting of prices for goods. So, this means that collective action is about action to make the need worthwhile for people.

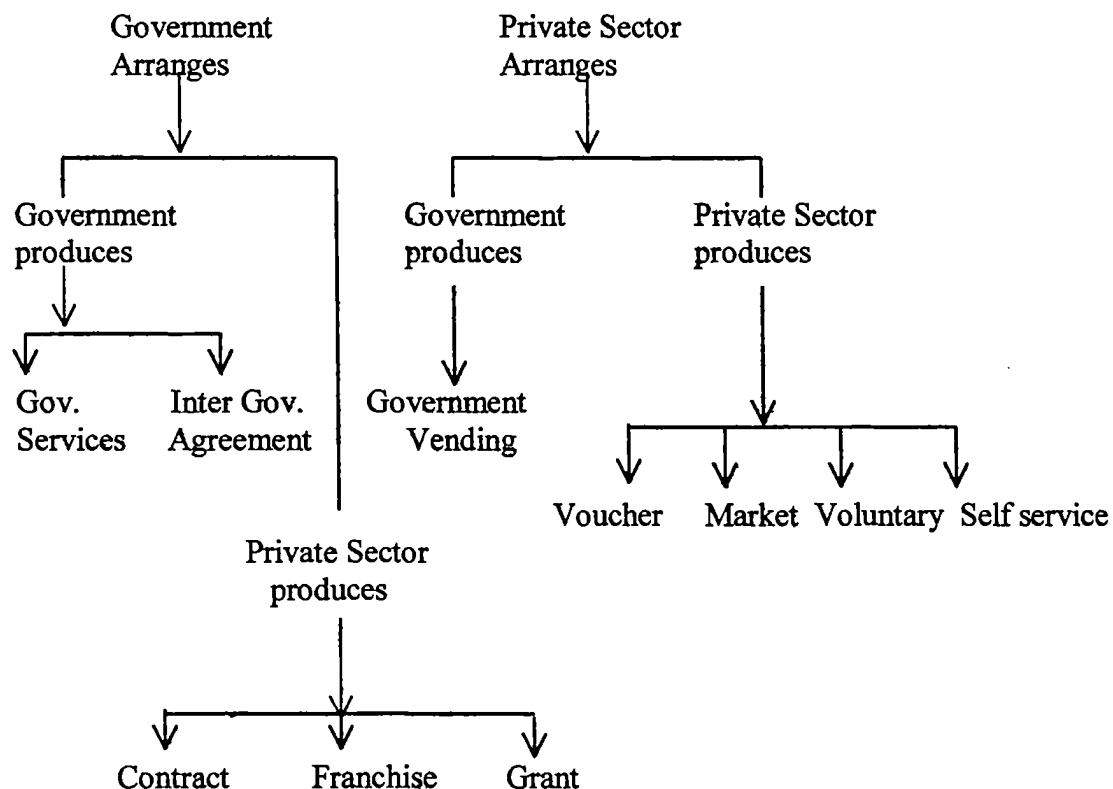
The question now arises, how to organise the collective action. The action involves several agents. Three basic participants in the delivery of a service can be identified: the service consumer, the service producer and the service provider. The consumer is the agent who receives the service. The service producer is the agent who actually and directly performs the work or delivers the service to the consumer. The service provider is the agent who assigns the producer to the consumer, or vice versa, or selects the producer who will serve the consumer. It seems that these three agents create a need network, in which the flow depends on a matching between supplier and buyer, and the key player for this matching is the service provider.

This brings us to the question, who can be the service provider? The answer is that it could be either government or the private sector. And, between the consumer and

producer, which one is closer to the service provider? Since the main issue behind any business transaction is cost, the producer is the main determinant in the business transaction.

The last part of the network is owned by consumers. The consumer is best seen in terms of types of transactions, i.e. government - government, government - private and private - private. From observation, ten arrangements for people to fulfil their need can be mentioned. They are government service, inter-governmental agreement, contract, franchise, grant, voucher, market, voluntary, self-service and government vending. The complete network is depicted in Figure 2.3.

Figure 2.3
Need Network



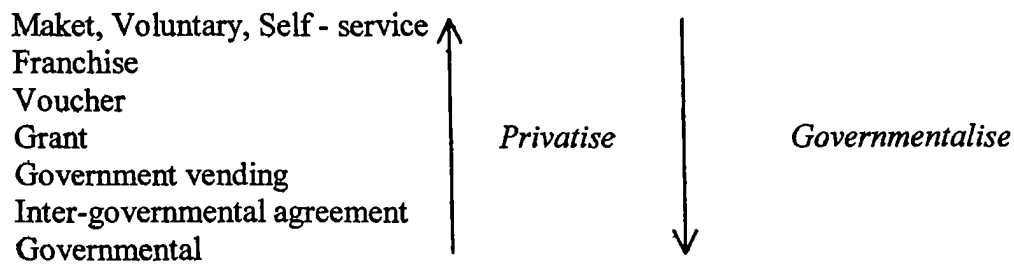
The network consists of matching between all agents: supplier, provider and consumer. An interesting aspect of this chart is that the consumer cannot exist without a transaction. This means that the decision to produce and arrange the goods is more important than the decision to consume. This phenomenon is influenced by the role of the provider. As the provider works in the interest of cost, the whole of the network is based on how the cost / price / conditions of suppliers can be fulfilled by the consumer.

Privatisation as a Reflection of Need

Our understanding of 'need' leads to the question, 'how need can be related to privatisation'. The relationship is quite interesting, especially as need can be interpreted as an alternative arrangement for managing the economy. Need is a symbol of people's life. In figure 2.3, need was seen to be a cumulative effort among producer, consumer and arranger, the outcome result of the effort is an event (government service, inter-governmental agreement, contract, franchise, grant, voucher, market, voluntary, self service or government vending) where the consumer's capacity matches the supplier's condition.

These events can be interpreted as need arrangements, such arrangement can be made by either the private sector or the public sector. This means that on one side, the tendency is to privatise; while on the other side, the tendency is to governmentalise / nationalise or de-privatise.

Figure 2.4
Need Reflection



Since political economy can be described as a way to distribute people's resources, (need) and this arrangement is a way to fulfil people's need, figure 2.4 can be viewed as a Spectrum of Privatisation. This means that privatisation can be interpreted as a dynamic concept, whereby government and private sector may have varying degrees of involvement; as the role of one increases, so the role of the other decreases. Political economy will be a way of negotiating to ensure the working of the privatisation mechanism. The direction of the mechanism is from market to government, or vice versa, as in figure 2.4.

An understanding of the political economy of the privatisation mechanism brings us to types of problem, which arise from the dynamic characteristic of privatisation. Problems in privatisation arise in relation to:

1. Changing from government to contract, grant, voucher, franchise, voluntary or market;
2. Eliminating grants (producer subsidies) in favour of voucher, voluntary or market arrangement;
3. Denationalising as a particular form of privatising that involves selling to the private sector, government owned enterprises or government owned assets used in producing goods or services;
4. Recognising that a particular government - supplied service is a toll or private good

- and imposing a user charge;.
5. Deregulating franchises and eliminating other price controls and entry barriers, in order to permit the market to respond to people's need.

A privatisation proposal should provide the answer to the problem in focus.

The above philosophy of privatisation from need could be seen as a way to distribute need by defining the duties of the public sector and private sector. In this case, this philosophy can be termed a political economy of need. In fact, the need has been put in the context of privatisation. Thus, this section has actually offered a political economic philosophy of privatisation.

2.4 Privatisation Concept from a Political Economy Perspective

Political economy is concerned with the distribution of economic resources and products. The main questions are who gets what and how much. Behind this is the need of people, and the "arrangement" (meaning organisation, co-ordination and flow of work) to fulfil that need. Related to the previous section, the arrangement might be interpreted as a type of business. This means the distribution of resources or product could be achieved by a range of arrangements, which tends towards privatisation to privatise or governmentalisation.

Privatisation and governmentalisation are viewed as two extremes. If the government chooses to have more influence in business, it will direct companies to the governmentalisation extreme. On the other hand, if it prefers to allow the private sector

to play a greater role, the tendency will be toward privatisation. The factors that determine the choice are 1)specificity of the service, 2)availability of producers, 3)efficiency and effectiveness, 4)scale, 5)relationship of costs and benefits, 6)responsiveness to consumers, 7)susceptibility to fraud, 8)economic equity, 9)equity for minorities, 10)responsiveness to government direction, and 11)size of government (Savas, 1987). Different arrangements can be selected according to these factors.

These factors are actually reflected in three types of privatisation analysis: macro policy for privatisation; the process of privatisation and post and pre the privatisation process. Macro policy analysis is affected by the concern of government for efficiency, minorities, government direction and government size. The more government seeks efficiency, the more it will tend towards privatisation. On the other hand, the more government enjoys the political orientation and the bigger the government size, the more governmentalisation will be the preferred alternative.

The process of privatisation is affected by the availability of producers, efficiency and effectiveness, scale, responsiveness to consumers and economic equity. If the preference of producers predominates, the tendency to privatise is greater. If the product or service is characterised as specific and particular, the government will prefer to privatise. And if the product is uniform and demand heavy, governmentalisation is preferable. Thus, the flexibility of private forms of business is a significant advantage.

In pre and post privatisation analysis, the items of cost and benefit, specificity of the

service and susceptibility to fraud are of a concern. The analysis of cost and benefit is recognised as a main consideration in deciding whether to privatise or governmentalise. As regards specificity of service and fraud, clear information on these matters is needed so the government can be confident of public support for the process of privatisation.

These types of analysis stimulated the idea of a framework of privatisation analysis. Such a framework can be divided into three elements: privatisation strategy for macro policy, privatisation process framework and pre - post privatisation framework, all of which arise from the political economy framework.

Macro Policy Framework

Figure 2.5
The Sequencing of Reforms



The macro policy framework concerns the goal with which government is undertaking the privatisation. In relation to this study, the answer is economic reform. Privatisation is only one element of reform (Smith and Staple, 1994). Others are restructuring and competition. The sequence of reform differs from one country to another. One might choose privatisation first, followed by restructuring and competition. Argentina is an example. Another might have the sequence restructuring, competition and

privatisation as did the UK. Japan's sequence was privatisation, competition and restructuring. These differences of sequence depend on each country's policy. The advantages of restructuring and commercialising the state - owned management prior to privatisation are at least twofold. First, a successful restructuring programme will enhance the management's performance and help to increase the sales value at the time of privatisation (Clarke,1993). Indeed, post-privatisation restructuring may lead to a situation where all the economic benefits of the restructuring opportunity are realised by the new owners while much could have been captured by the government (i.e., the seller). Second, a successful restructuring programme can enhance management and labour productivity and morale, build confidence in the privatisation process and reduce the likelihood of employees' objectives (Pitelis and Clarke,1993). This means that each country which chooses the same method will get these benefits.

Related to the macro policy, the developing country's experience is slightly different from the developed country's experience. Most developing countries have limited experience of managing economic restructuring. These countries sometimes face significant political constraints. The suitable approach for these kinds of condition is incrementalism, as unacceptably high cost may be incurred where there are very large unmet demands and a massive infrastructure programme. In such cases, privatisation is preceded by a restructuring process in which the state - owned carrier is commercialised, and the government's regulatory responsibilities are separated from its policy - making and operational roles and placed in a separate organisation.

The macro analysis of privatisation is quite important because it is necessary to understand the objective of privatisation, in the context of economic and political development. Some pre-conditions, such as regulatory reform, are needed to make privatisation succeed. These situations should be created to support privatisation as an applicable method of managing the economy. So, the first stage of the privatisation framework from a political economy perspective, is macro analysis. This will open an understanding on some backgrounds why the privatisation is needed.

Privatisation Process

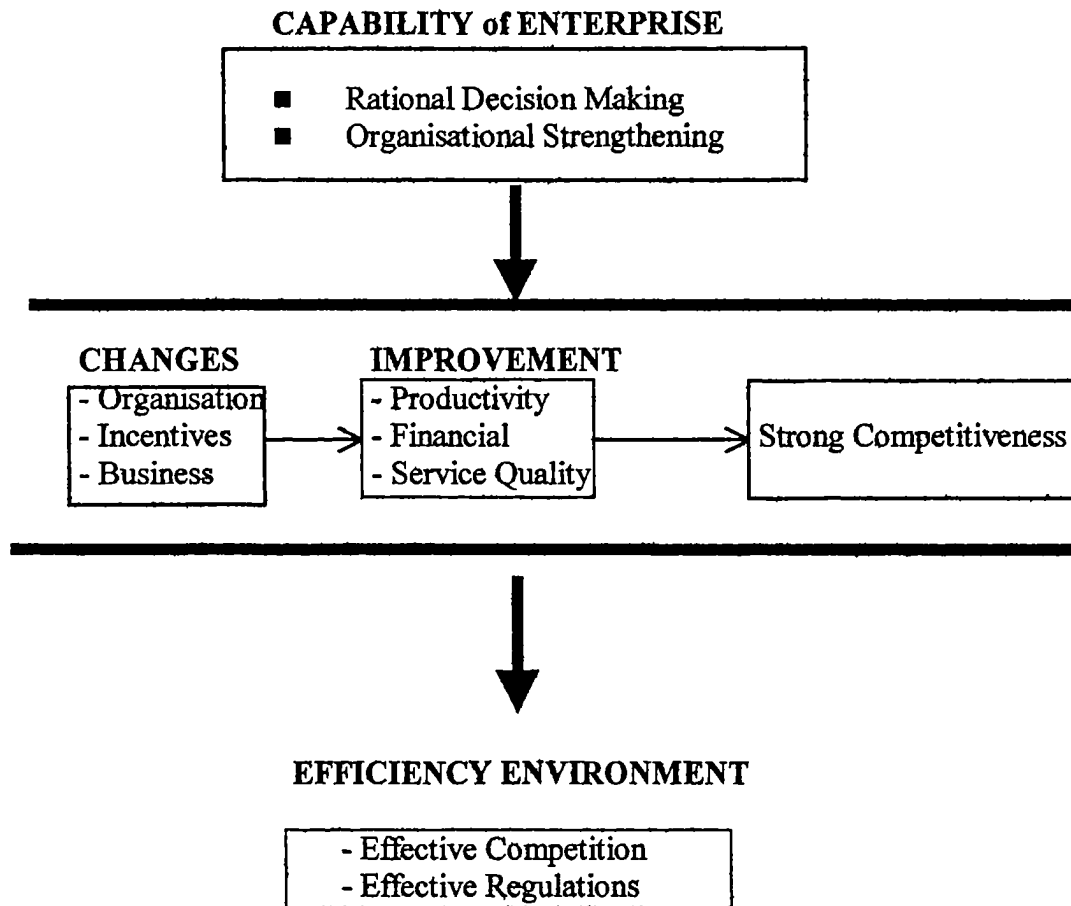
The second framework of analysis from the standpoint of political economy concerns the privatisation process. This framework is derived from macro policy analysis. The idea is that privatisation is better raised from the bottom up. The privatisation process is begun from inside the enterprise. The macro policy is only to situate the external condition of the enterprise. As the main actor of privatisation, the enterprise should be prepared to change and improve its internal capability. This means that the framework of the privatisation process is about enlightening the enterprise (management).

Earlier, the idea was put forward that the capability of an enterprise is determined by the strength of the organisation and the accuracy of decision making. The more accurate management decision making, the more capable it will be of handling problems. Also, if the organisation has a good teamwork, the strength of the organisation will be solid. Within sufficient capability on the part of the enterprise, the management can start the process of privatisation. For example, the management must ensure their financial

statements conform to internationally recognised accounting standards.

To start the privatisation process, management should change internally. Organisation, incentives and business are key factors in accumulating resources, in order to create improvements, in terms of the increased of productivity, profitability and service quality. The purpose of internal change is to achieve competitive strength. This means that the process of privatisation will increase the degree of competitiveness. However, the degree of competitiveness will depend on the enterprise's environment, which is part of the macro policy analysis framework. The outcome of internal change is where the second framework overlaps with the first. The impact of macro policy is on the formulation of the environment. The setting of the enterprise's environment is determined by regulation and competition. So, the creation of an environment conducive to efficiency involves a change to effective competition and effective regulations. In this case, the relationship between the degree of competitiveness and the efficiency environment determines the success of privatisation.

Figure 2.6
Privatisation Framework

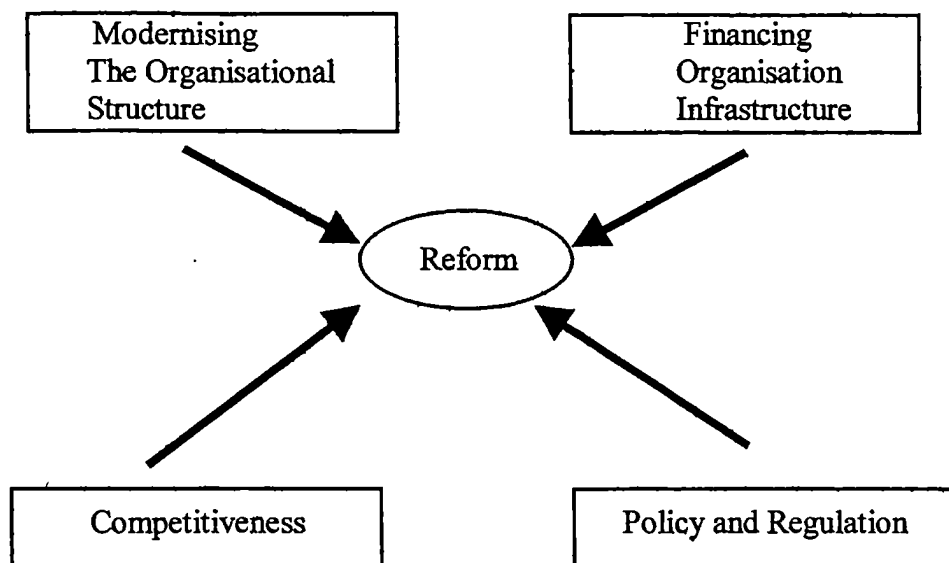


The flow of thought in the privatisation process gives the impression that the actors in privatisation are government and enterprise. The destination of the process is not on the public side but on the private side. That is why the term privatisation is closely linked to the market. Or, in the figure above, management directs the enterprise towards the efficient environment. If, in reality, the determinant of product acceptability is the market, this means that the efficiency environment is equal to the market.

Pre - Post Privatisation

The third framework of analysis from a political economy perspective is pre - post privatisation analysis. Our understanding of the process and environment of privatisation leads to a question of how to control the process and its externalities. In other words, it is about how to control the first and second frameworks of privatisation, from a political economy perspective. In this case, our study suggests that the reform should encompass four aspects: 1) modernising the organisational structure, 2) financing organisation infrastructure, 3) competitiveness and 4) policy and regulation. These four aspects become the barometer of the government's ability to manage privatisation.

Figure 2.7
Evaluation of Privatisation Framework



Modernising the organisational structure is simply called restructuring. In this phenomenon, management reorganise their activities according to a new organisational

form (matrix, network or other) and mission. In restructuring, management can be enlarged or pared down. However, the key to modernising the organisational structure is to make organisations more flexible and adaptable to external challenges and opportunities.

Financing organisation infrastructure reflects the introduction of new strategy to raise funding for management projects. Joint Venture, Build of Transfer and Leasing are suggested as some ways to create new capital resources. By inviting a new joint partner, management may be able to undertake new projects without selling their assets. This innovation is a key for management to improve their activities.

The third dimension, competitiveness, is a result of modernising the organisational structure and financing organisation infrastructure. An effective management policy in relation to organisation infrastructure and finance can strengthen the competitiveness of the enterprise. In this case, management should consider the business environment as a significant factor. However, the management may be constrained, or guided by regulation. The regulator can stimulate the enterprise to progress with certain incentives. On the other hand, progress or the adoption of certain alternatives may be constrained by particular management objectives.

The framework of analysis provides guidance on which events of privatisation are critical and challenging. The study suggests that policy making and regulation are critical events to promoting successful privatisation. The type of policy and regulation will affect the

type of restructuring and teamwork in management activities. If the policy allows the diversification of suppliers, the management of the enterprise should adapt to the new business competition. In this case, divisionalisation will be a better choice to increase the range of supply.

The next critical event concerns restructuring. The management should adjust to the new demands of the industry regulator and, in turn, the new demands of world business. These events are critical, since the wrong choice of structure can impede the progress. Besides that, the shifting of power can create chaos, since the structure is symbolic of power. Another critical internal event is financing organisation infrastructure. Finance is a substantial element of any enlargement project. In the privatisation process, the type of finance will affect the type of teamwork and ownership. If management prefers contracting, the ownership of the enterprise can be unchanged. In case of selling shares, management should shift their focus toward shareholders.

The last event that is regarded as critical is competitiveness. There is no measure of the degree of competitiveness. The only sign of competitiveness is that management can maintain its efforts in business over the long term. The right strategy will bring progress in terms of profit, size of organisation etc, whereas an unwise strategy can cause a company to lag behind its competitors. This means that privatisation cannot be evaluated in a short-term context. However, several signs of flexibility can be traced in the privatisation process, such as increased profit, increase in the quality of human resources and improvement of other products of management. The key point of privatisation is

the morale of employees. If morale deteriorates, this means that management has failed to deliver the privatisation message. This means that the political economy perspective of privatisation depends on how management succeeds in convincing the other agents of privatisation.

Recognition of Accounting Role

Our discussion of the three stages of the privatisation framework has implicitly emphasised the accounting role. In the macro policy framework, privatisation is related to restructuring and competition. To reflect the capability of competition, the management are asked to disclose their financial condition as a part of their advantages. On the other hand, to reflect the balance of power before and after restructuring, the accounting system works to reflect the impact of political, social and economic change. As a conclusion, the first framework puts accounting beyond its traditional function of recording.

In the second and third frameworks, accounting is recognised as an indicator of privatisation. The improvement of management can be analysed by the comparison between accounting numbers in financial reporting. Besides that, the final product of privatisation is said to be an efficiency environment. The management should disclose their efficiency. To sum up, accounting's function has a capability to influence the environment in the second and third frameworks.

This section has argued that accounting's role is inherent in privatisation. This means

that the privatisation process cannot be exercised without accounting. For example, if management want to sell their shares in the international capital market, they will need to meet international requirements in relation to financial statement. If management seek a loan, the banking authority will require sufficient financial reporting. This means that accounting has an important role in all aspects of the privatisation process.

2.5 Concluding Comments

Privatisation can be analysed from a political economy perspective. The characteristics of political economy match the characteristics of privatisation. Both of them are rooted in 'need'. Reclassification of need management shows to the range of political economy's influence on the privatisation process. Political economy contributes the notion of 'distribution' to the privatisation process. This enriches the meaning of privatisation; it is now seen to mean managing and distributing the resources and product of arrangements. So, the application of a political economy perspective to privatisation analysis has a dual emphasis.

The framework for analysis of privatisation can be divided into three stages: macro policy analysis, privatisation process analysis, and evaluation analysis. These three frameworks are related to each other. The result of macro policy analysis is incorporated in privatisation process analysis. Also, the analysis of macro policy privatisation acts as inputs to evaluation analysis. This type of relationship provides the integration in the privatisation framework. In this case, political economy clarifies how managing the process leads to better distribution of products and resources. Related to this,

accounting can act as a tool to show the managing and distribution process. The framework leads to a recognition of accounting as a part of improvement; as adjusting to international standards is just one example. Thus, the political economy approach to privatisation sees accounting as not only for recording, but also for reflection of all privatisation phenomena.

Endnotes

ⁱ See Wellenius and Stern, 1994. Almost one hundred countries have undertaken privatisation of the telecommunication industry.

ⁱⁱ See Dunleavy, 1986. The 'boom' of privatisation has brought fundamental similarities between the current UK experience and earlier urban policy booms.

ⁱⁱⁱ See Dunleavy, 1986, p. 13. The US and UK are cited as leaders of the implementation public choice theory in privatisation.

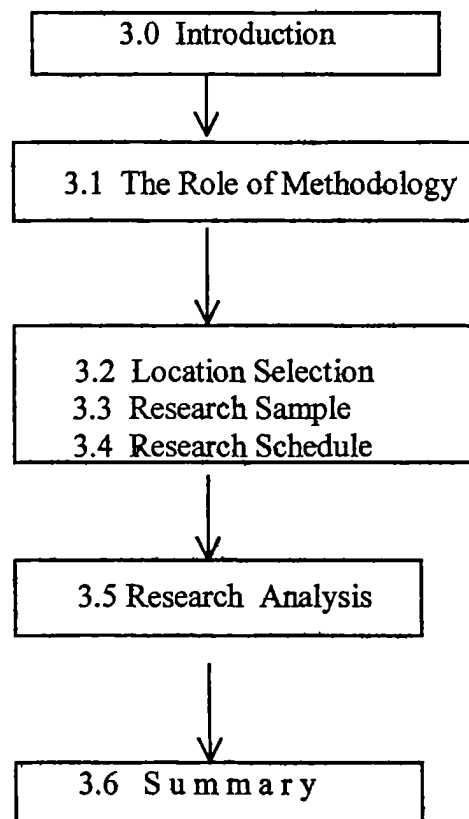
CHAPTER THREE RESEARCH METHODOLOGY

3.0 Introduction

In Chapter Two, which presented the theoretical framework to this study, the question of “what you see” was explored, to identify the research phenomenon and research area. The research focus was identified as privatisation of public enterprise. In this chapter, the next question, ‘how do you investigate what you see?’ will be explored. A mediator between these two chapters was the discussion of the research approach, political economy, in the previous chapter. So, in this chapter the emphasis is on implementing a political economy approach in the rest of the research process.

The structure of this chapter is as shown in Figure 3.1.

Figure 3.1
Structure of Chapter Three



The chapter begins by exploring the role of methodology, identifying a research problem and considering its methodological implications. This is the focus of Section 3.1.

Once we understand the function of methodology, we can plan to do the research. Here, the main issues to be considered are the research location, sample and schedule. The location is the research context. The sample is the source of main research data. The schedule imposes the research constraints. A discussion of these three factors will be presented in Sections 3.2, 3.3 and 3.4. The later section will present a picture of the whole research process.

This is followed by a section highlighting the methods of analysis used in the research. From the research approach, political economy, two practical aspects of analysis are derived as regulation and financial reporting analysis. Both will be explored in section 3.5. Finally, Section 3.6 will summarise the discussion of this chapter.

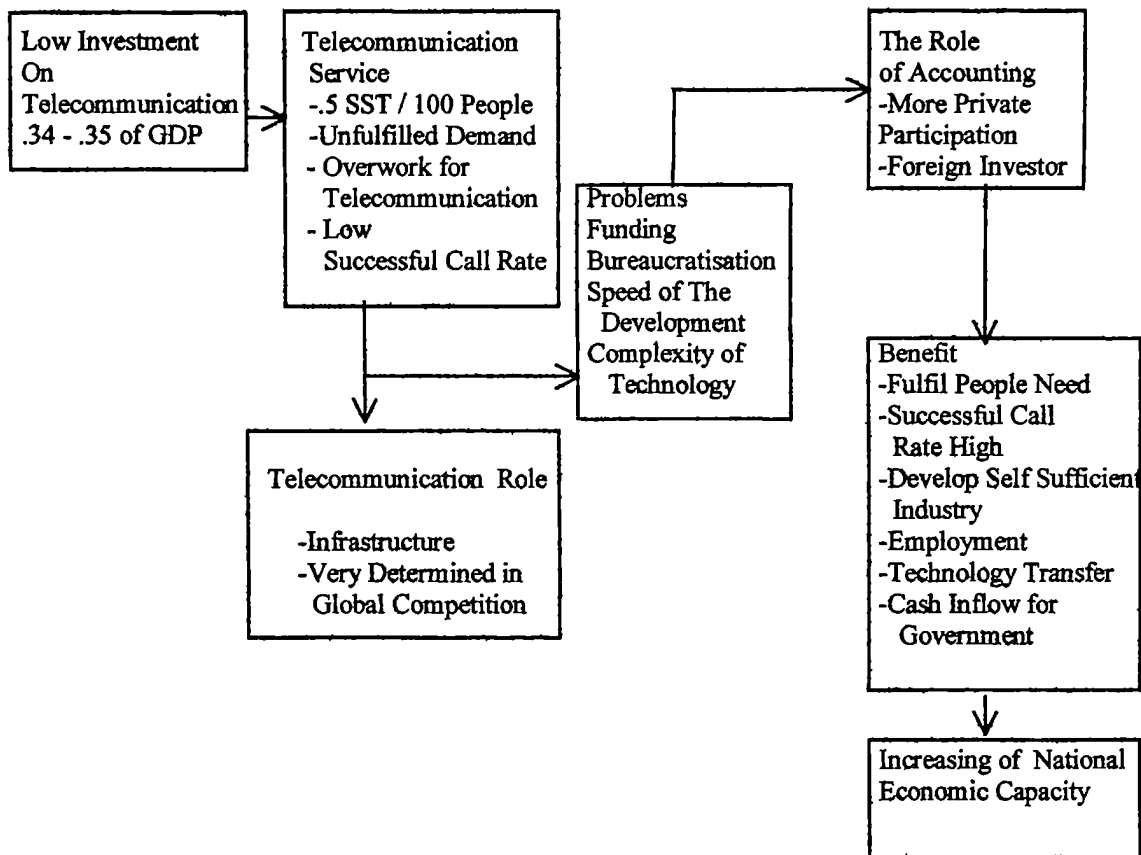
3.1 The Role of Methodology

In this section, the role of methodology as a bridge between the research context and approach will be discussed. The context of the study is Indonesia, while the approach is political economy, which is derived from the West. So, the question arises, 'how do we implement a western approach in an oriental-Indonesian - context?'. To answer this question, this section will outline the research problem in terms of its methodological implications.

3.1.1 *Research Problem*

The first step in this section is to explore the research problem. The research problem is closely related to the privatisation movement. This means that to understand the rationale underlying the research problem, it is necessary to understand why privatisation takes place. Since this study is particularly concerned with the telecommunication industry, the background of privatisation in that industry will be explored here.

Figure 3.2
Behind of Privatisation



Source: PT TELKOM, 1990

The process of privatisation in Indonesia was begun in 1989 with a consciousness of lack of investment. Indonesia's investment in telecommunication was only 0.3-0.4% of GDP. Compared to Malaysia (2.3% of GDP) and Singapore (1.4% of GDP), Indonesia was providing insufficient budget to stimulate telecommunication growth, so that the industry was unable to keep face with the increasing demand for telecommunication service. Our observation identified several deficiencies. The first was lack of service. Only 0.5 - 0.7% of the population were served, compared to 35.4% in Singapore, 7.4% in Malaysia, 1.8%

in Thailand and 1% in Philippines. Thus, Indonesia was lagging behind other countries of the region. This lack of service, caused by low capacity of the telecommunication industry, produced a second problem, that of unfulfilled demand. The waiting time for Indonesians to get a telephone line was about 2.6 years. This was better than in Brunei (3.7 years), Thailand (8.6 years) and Philippines (>10 years), but much longer than in Malaysia (0.9 years) and Singapore (no wait).

The first and second deficiencies meant that telecommunication companies were overburdened. Indonesia had only three state-owned companies, each monopolising one aspect of the telecommunication industry: one for international service, another for domestic service and the last one for manufacturing production.

The inability of these companies to cope with the demands on the service led to a successful call rate (SCR) in 1990 of only 18%, placing Indonesia far behind Malaysia (50%) and Singapore (70%). Moreover, Indonesia's SCR was well below the Telecommunication Union standard, (50 - 70%). Thus, a serious effort was needed to bring Indonesia's telecom service into line with international standards.

Another factor attracting the attention of policy-market has been increased consciousness of the potential role of telecommunication since the 1980s. Telecommunication is recognised as part of the development infrastructure and as an arena of global competition. Regarding the first role, the telecommunication industry has been suspected of being a 'bottle neck' in national development in the last twenty years. In other words,

it is thought that the success of many projects has been impeded by lack of telecommunication service. On the other hand, the demand for stronger telecommunication service has increased at the global level.

From the above discussion, a number of problems of the telecommunication industry can be identified. The first problem can be identified as the problem of funding, which led to a search for ways to raise funds. The second problem was related to overwork, caused by bureaucratisation in telecommunication industry. The monopoly practice had led to inflexibility in administrative procedure. Another problem was the speed of industrial development. This problem was closely related to human resources development. The lack of education, training and experience led to a low degree of expertise and hence, inefficient work. Besides these problems of the telecommunication environment, the nature of the industry itself created a specific problem, the complexity of technology, due to the speed of innovation. As a conclusion, the problems of the telecommunication industry could be classified as natural and environmental. The natural problem, which always exists, can be solved addressed by sustained development of technology. On the other hand, the environmental problems can be reduced by undertaking a proper development strategy.

In the light of these problems, the government followed the World Bank's suggestion: industrial reform. 'Reform' here, means a policy to raise funding for the benefit of telecommunication industry and for a contribution to the government. The policy focused on attracting more private participation and more foreign investors. In other

words, the essence of the reform was privatisation.

At this stage in the discussion, the research problem can be derived. The research problem is to analyse the privatisation programme in the Indonesian telecommunication industry, with particular reference to the accounting role. In this case, the descriptive analysis will be related to the achievement of the goals of privatisation which could be listed as 1)fulfilling people's need; 2) raising the SCR; 3)developing a self-sufficient industry; 4)employment; 5)technology transfer; 6)cash inflow for government. The aim of privatisation, in general, was to increase the national economic capacity.

Before formulating our research question, it is appropriate to see how our theoretical framework views privatisation. The privatisation process can be classified into three critical stages: macro policy of privatisation, privatisation process, and pre - post analysis of privatisation. Within each framework, there is an implicit recognition of accounting. This means that our understanding of the development of accounting in privatisation will reflect an integrated knowledge about the events of privatisation. Considering natural limitation caused by government characteristics, this study will appraise the decision of privatisation by searching the role of accounting. So, a research question can be formulated now.

The main research question is:

What is the accounting role in the evaluation of privatisation decision for the Indonesian Telecommunication Industry?

The question encompasses three components: the role of accounting, privatisation and the Indonesian Telecommunication Industry. These three elements will be discussed as the three main topics of this thesis. The topic of privatisation is the context of the study. From a theoretical point of view, it is also an implementation of the political economy approach. The theoretical framework of this study, therefore, is the theory of privatisation. The other elements, i.e. the role of accounting and the Indonesian telecommunication industry, will be explored in the literature review chapters.

The purpose of the research is not to test, but to describe. From a description of the privatisation phenomenon, the study will identify whether privatisation might face some problems, and if so, suggest some potential solutions. So, the challenge of the study will be to assemble a detailed picture of the evaluation of privatisation decision in the Indonesian telecommunication industry.

3.1.2 Methodological Implications

The second strand in this discussion of the role of methodology is exploration of the methodological implications of a political economy approach and accounting perspective. In the previous chapter, political economy was said to be a matter of social analysis. This implies that a social research approach is appropriate. The research is qualitative, rather than quantitative in nature. In collecting data, the emphasis is on obtaining an in-depth understanding of the research phenomenon. Interview, whether structured, unstructured or semi-structured will be preferable. Documentary analysis will also play an important role in the research. A combination of interview / observation and documentary analysis

is common in qualitative research.

In general, the accounting point of view demands specific techniques of analysis; financial reporting, accounting system, and financial ratio are some common focuses of accounting analysis. The approach selected will be determined by the needs of the research, in accordance with the research objective.

This study is concerned to generate understanding of the social change of privatisation. An important dimension of this study is political economy. In the context of this study, this means, first, the influence of non-economic factors; the study considers a political form of public policy, regulation, as an element of analysis. Second, privatisation is viewed as a context for economic calculation. The study will therefore utilise financial reporting, as a form of economic calculation, in order to investigate a public policy, privatisation. So, the analysis in the study will be of two elements: regulation and financial reporting.

3.1.3 Document Collection

Analysis of both regulation and financial reporting in this study is supported by document collection. With regard to regulation, the copies of regulations and other documents related to privatisation and public enterprise in Indonesia were collected from public libraries, the telecommunication library, the World Bank library, the Ministry of Telecommunication library and personal contacts. Most of the regulations issued by the Government (People's Representative), Ministry of Finance and Ministry of

Telecommunication have been codified in book form. Other published documents dealing with the description, analysis and background of privatisation have been issued as supporting documents. Most documents are published by the World Bank, International Telecommunication Union and Ministry of Telecommunication.

The second type of document collected concerns financial reporting. The researcher analysed all financial reporting of public enterprises in the telecommunication industry, for the years 1984 – 1997, i.e. spanning the years immediately before and after privatisation.ⁱ Financial reporting documents include financial statements, disclosure and other supporting documents. The history of policy and development of each company was also examined, in order to clarify the background and other important events related to accounting items.

Although documentary search provided useful information about expectations and requirements, it could not provide insight into people's feelings and behaviour in response to privatisation policy. For this purpose, a complementary research method, that of in-depth interviewing, was used, as described in the next sub-section.

3.1.4 In-depth Interviewing

To collect data on people's response, various options were considered, such as interview, questionnaire and observation. The conditions under which the fieldwork was undertaken were influenced by the government's campaign on privatisation, which has sought to bring about a uniform level of information and unity of opinion. This made it difficult to

search for personal frames of reference, information and opinions. A survey method with in-depth interviewing is suggested as a way to obtain an understanding of the behavioral dimension of privatisation (Smith,1981,p.175). This method demands skill and practice. Banaka (1971:21-30) advised specific training for in-depth interviewing. Such training aims to increase the researcher's capability in terms of: 1)inclusion - how much trainees feel part of or excluded from the interview; 2)control - trainees' perception of how much in control or out of control of the interview they are, and 3)affect - how trainees feel towards the interviewee. The problem with the in-depth interview is one of structure. The depth interviewer has no 'prepared script' (interview schedule) to fall back on, so he or she has to develop special interpersonal skills that permit the interviewer, rather than the interviewee, to structure the interview.

A first duty of the interviewer is to gain interviewees' confidence. In this case, since interviewees' perceptions were influenced by the government campaign, the researcher had to be able to persuade the interviewees to express their own views. Respondents were asked about their personal feelings regarding their future, income and career. Experience shows that an interviewer can ask almost anything of interviewees and obtain answers if he or she can deal with his or her own moral -ethical qualms about delving into the interviewees' life.

A second issue of depth interviewing is the problem of control. There is the danger that the interviewees may take over control of the interview. The first means of dealing with control has been discussed under the topic of inclusion. If the interviewer cannot handle

his or her own emotions, he or she will easily be led by his or her interviewees. Beyond this, a good tactic is to start with a written general plan of action. In the plan, the interviewer outlines a description of his or her research problem, including a summary of data he or she feels will be needed to draw conclusions from the study. The general plan for this study was as outlined below:

- I. Personal characteristics before and at the time of privatisation (age, years in work, position, income and job description)
- II. Personal knowledge of someone who had worked in industry / company reform
 - A. Their relationship to you at that time
 - B. The effect of this experience on them
 - C. The effect of this experience on you
 - D. Similarity - differences of own experience to theirs'
- III. Conception of privatisation before own experience; differences from actual privatisation
- IV. Description of actual privatisation:
 - A. Where and when did it happen?
 - B. Distinguishing features of organisations, incentives and business before and in privatisation; and, identify changes in productivity, financial and service quality
 - C. External factors of privatisation; and, external impact from privatisation
- V. Who told you about privatisation? Your direct supervisor, friends or Director?
 - A. What was your first reaction? How did other people react to your reaction?
 - B. If the management told you about privatisation, describe their policy in handling privatisation process. Your reaction to these procedures.
 - C. If management did not tell you the complete procedures or story, why not?
- VI. Whom did you tell about privatisation? Relatives, friends, authorities (management)? Why were these particular people told or not told?
 - A. What was their first reaction? What do you think about their reaction?

VII. Noticeable effects privatisation has had on life - changes in attitude toward competition and regulation, teamwork, work spirit, job load, earning and bonus, and promotion.

VIII. Advice for other persons who face privatisation

IX. Motivation for participation in this study.

The general interview plan was not stuck to rigidly when doing the interviews. Such plan can be regarded as a checklist of points to be covered, but not necessarily in the order of the list, no matter how logically laid out.

Control is often lost because the interviewer may 1)infer things not stated by the interviewee; 2)fixate on the interviewees' words by repeating exactly what was said; 3)ask questions that imply the researcher already knows the answer; 4)interrupt the interviewees' answer; 5)ask several questions before the interviewee has a chance to respond to the first one. By contrast, interviewees may diminish the interviewer's control by (Banaka, 1971:17):

1. being vague; answering 'do not know'
2. asking a question about her or himself
3. resorting to long, rambling monologues
4. interrupting before he or she finishes a question
5. asking to clarify his or her questions
6. talking in a very low voice so the interview can barely hear

The interviewer usually uses some non-directive feedback to the interviewees on what he or she seems to be stating or feeling, as a means of 1)showing interviewees that the interviewer has been listening and 2)encouraging the interviewees to expose themselves more. In this case, he or she should avoid the use of advice giving, disagreement,

agreement, and inferences to things, example: 'I think so'.

The third issue in depth-interviewing is about affect, which tends to create a control problem. Some of the ways feelings can be avoided are (Banaka,1971:17):

1. Objectifying the feeling by expressing an opinion about the other person or object involved
2. Denying feelings
3. Avoiding the use of the pronoun 'I'; using 'we' or 'you' so that the researcher cannot tell to whom the feeling or opinion belongs
4. Crying or acting embarrassed
5. Asking to be excused for a minute

Emotive response can cause the interviewer to lose control of the interview process. If an avoiding action can be done, control can be regained after a short time. However, if the interviewer fails to recover the situation, the interview will be stopped. This case shows that depth interviewing obviously requires much training in interpersonal skills.

The above discussion explains the data collection methods used analysis. Below, the research into location, interviewees and schedule will be discussed.

3.2 Location Selection

In this study, the research location was determined by the headquarters of the state-owned enterprises, PT TELKOM (Bandung), PT INDOSAT (Jakarta) and PT INTI (Bandung). Before 1992, management of telecommunication services was conducted by these three companies and one Telecommunication Council. Each company had its own role in developing and maintaining telecommunication service. However, since the demand for

service was greater than these three companies' capacity, the government invited private participation in 1992. At the same time, industrial reform was undertaken to multiply the state - owned companies' capacity. The policy to reform the state - owned companies is called as privatisation of state - owned companies.

Related to methodology, these three state-owned companies constitute the whole research population. This means that only these three companies, PT TELKOM, PT INDOSAT, and PT INTI were available as the objects of study. In this situation, it is better to use the term 'research interviewees' for our interviewees. The reasons are 1) the character of the study is descriptive; 2) interviewees are the main sources of knowledge and information; 3) concern for interviewees is based on their information, not on their characteristics. So, employees are potential sources of knowledge and information.

3.3 Research Interviewees

The interviewees interviewed for this study were expert, and, managers and directors of PT TELKOM, PT INDOSAT and PT INTI. These positions were chosen, since the requirement to be a key interviewee was involvement in the decision process of privatisation. Thus, as research objects, these companies were represented by their managers and directors. There were three groups of interviewees: directors, accounting managers and experts.

Regarding the director group, the composition of top management in the companies is not uniform. In PT TELKOM, top management consists of a President Director, Director of

Marketing, Director of Production, Director of Finance and Director of Human Resources Development. It is similar in PT INDOSAT. For PT INTI, the composition of top management is slightly different, as there is also a Director of Research and Development. Interviews were conducted with 13 Directors (80%). These interviews enabled the researcher to obtain an overall picture of industrial reform, the background to privatisation, the privatisation process and responses to official reports.

As regards accounting managers, each company contained a different number of middle managers, depending on the need of the organisation and business. There were 7 accounting managers in PT TELKOM, 5 in PT INDOSAT; and 3 in PT INTI. Interviews were conducted with all of them. The interviews covered the difference between reality and expectations of privatisation, the new job load in privatisation and promotion and career after privatisation. In this group, the difficulty of affect was the main problem. Besides that, more preparation was needed than for the first group, since most managers talk in terms of their own managerial experience and practice.

The third group contained experts. This group was scheduled as the first group to be interviewed. The advantage of interviewing experts was to obtain a clear picture of privatisation from a theoretical point of view, a summary of expert analysis on privatisation practice in Indonesia and some experts' notes on the experience of privatisation. The disadvantage was the possibility that the experts might lead the interviewer towards certain conclusions, which could bias subsequent interviews and analysis of responses. To reduce this danger, the experts in this study were selected from

different fields: economics, accounting, management, sociology (politics, sociology and anthropology), finance and telecommunication. Their varied spheres of knowledge provided a global picture of privatisation, and offered various possible approaches to analysing privatisation problems.

Figure 3.3
Expert Interviewees

Field	Academicians	Analysts	Total
Economy	2	2	4
Telecommunication	2	2	4
Sociology	2	0	2
Management	3	1	4
Finance	2	0	2
Accounting	3	1	4
Total	14	6	20

Six of the experts could be described as analysts and fourteen as academicians. Most academicians were actually involved as analysts in certain consultant companies. In the selection of experts, references from other experts and Directors were the main requirements. As a note, in this group, the experts in the management field were from the United Kingdom's and having some experiences in Indonesia's telecommunication industry. All academicians were recognised as professors and acknowledged authorities in their fields.

The interviewees can also be categorised by the topics covered. These encompassed policy / regulation, internal restructuring and privatisation evaluation. The first topic, policy / regulation, represents activities before privatisation, including requirements,

government policy, reform, competition and regulation. The second, internal restructuring represents activities in the privatisation process, including financial restructuring, modernising organisational structure and behaviour after and before privatisation. The third, personal opinion represents expectations after privatisation, in relation to income, promotion, career's planning and work spirit. Figure 3.4, below shows the distribution of interviewees for each topic:

Figure 3. 4
Topics raised with each interviewee group

	Directors	Managers	Experts
Policy / Regulation			
1. Requirement	√		
2. Government policy	√		√
3. Reform	√	√	√
4. Competition	√	√	
5. Regulation			√
Internal Restructuring			
1. Financial restructuring		√	
2. Modernising organisation structure	√	√	
3. Behaviour in privatisation		√	√
Personal Experience			
1. Income	√	√	√
2. Promotion	√		
3. Career planning	√	√	
4. Work morale			√

On average, the length of each interview was around one hour. Usually, no break was taken. Because of tightly scheduled appointment or difficulty of concentration, long interviews were undesirable.

3.4 Research Schedule

Another item that strengthens the research validity is the schedule, which represents constraints of time, capacity and resources. The total time span covered by this study was about three years, including the whole process of collecting data, analysing data and writing a report. Below is a complete schedule plan for this research.

Figure 3. 5
Schedule Planning

No	Items	Length of Time	Note
1.	Research Preparation		
	Literature Review	4 months	
	Theoretical Framework	3 months	
	Methodology	2 months	
	Contact the Authority	1 month	Fieldwork Preparation
2.	Field Work		
	Document Collection	1 month	
	Preliminary Analysis of Document	1 month	
	Interview	2 months	
	Verification	1 month	
	Discussing Preliminary Finding	1 month	Spot finding
3.	Analysis		
	Document Analysis	1 month	
	Supporting Interview	1 month	Linking all data
	Proposed Research Finding I	1 month	
	Proposed Research Finding II	1 month	
	Writing	1 month	
4.	Final Report		
	Codification of Draft	3 months	
	Revision	6 months	
	Final Draft	6 months	Submit

In relation to the schedule some important points can be made. First, the research was broken down into four stages: preparation, fieldwork, analysis and final report. A different period of time was allocated for each stage: preparation - 10 months; field work - 6 months; analysis - 5 months and writing - 15 months. These differences did not indicate the degree of difficulty of each stage, but rather, the work load. In preparation, three crucial research foundations had to be achieved: a literature review, formulation of a theoretical framework and determination of an appropriate methodology. A solid foundation will lead to solid fieldwork and analysis. In the fieldwork phase, the database of the research was collected. Careful planning and practice of the data collection are necessary to produce a solid base for analysis. The last stage, reporting, concludes the study and is important for evaluation. Since the research was carried out by one researcher, the writing stage was a cumulative effort and the culmination of the analysis. In this situation, careful thought about planning was needed.

Second, reporting should be treated as the ultimate effort, rather than ordinary work. The reporting is the presentation of the study's product. This means that an impression of the research quality is governed by response to the report. In this respect, the 'finishing touch' should be regarded as fifty percent of the product value. Third, research findings should be treated specifically, since the research findings will be presented in an executive summary or research abstract, which represents the whole research work. This is why in the analysis phase, research findings are mentioned twice. Besides that, in the fieldwork phase, preliminary findings were discussed. Feedback on the research findings was necessary to evaluate our analysis and even the research data. So, the research report

and research findings are the two important outcomes at the end of the research.

3.5 Research Analysis

As indicated in the section on methodological implications, the research analysis was divided into financial reporting and regulation. The financial reporting analysis was dominated by financial ratio and comparison of financial reporting between years, with particular reference to comparison of the reporting of technical and financial data.

In terms of regulatory analysis, three factors were selected to establish a framework for understanding the ways in which regulatory reform occurs: a)the social, economic and political *forces* which have been brought to bear on a particular regulatory regime; b)the relative power of *advocates* and *opponents* of change; c)the *means* by which change can be affected (Stanbury,1989). Institutions or people in the process of reform are not directly related to the social, economic and political forces, which create pressures for change. Regulatory change requires actions from regulators and politicians; however, this action is most often opposed by proponents and opponents of change which is raised by general forces. Even though conflict occurs, regulators and politicians find a convenient means to effect change. Some changes necessitate new legislation, others do not.

These two types of analysis supplemented each other. Regulation analysis reflected a change in the political economy arena, while financial reporting provided a supplementary evidence of the impact of privatisation. The combination of both forms of

analysis yields public policy analysis from an accounting point of view. This is in line with modern trends in accounting, which try to link accounting with social and public policy.

3.6 Summary

1. The Research Methodology explained how to implement the political economy approach.
2. The crucial part of the methodology is the implementation of a western approach in an Indonesian context.
3. The determinants of research validity are location, interviewees and schedule.
4. The determinants of research reliability are the position and function of interviewees, and the authenticity of documents.
5. A feedback process was utilised to maintain the quality of reasoning and the degree of validity and reliability.
6. The areas of analysis are regulation and financial reporting.
7. The study of public policy confers a public obligation, meaning that the study should learn from the public and address their problems, in order to promote social welfare.

Endnotes

ⁱ In the research proposal, the range of financial reporting was between 1984-1995. In the middle of research process, the recent data on 1996 and 1997's financial reporting were obtained. In the interest of answering research question, both 1996's and 1997's financial reporting were included.

PART ONE: LITERATURE REVIEW

The search for accounting's role in telecommunication industry is continued. This part is concerned mainly with a critical review of the relevant literature. The types of literature reviewed can be divided into three fields: the accounting role, the history of the Indonesian telecommunication industry, and the contemporary stage of Indonesian accounting. Each field will be examined with particular focus on the privatisation context. So, the aim of this literature review is to get a complete picture of the role of accounting in privatisation.

The ideas in the Theoretical Framework and the Methodology Chapters have directed this part, especially the focus of discussion. Reflections about theory and methodology highlighted the need for this part to lead to a greater understanding of past and present, and to look for possibilities for the future. The justifications for understanding the past and present, and for predicting the future, are intellectual and utilitarian. The intellectual justification is about an interest in the past and present, and a need for a clarification of the development of accounting thought, practices and institutions. The utilitarian justification is about how to explore our learning experience, in order to solve the present and future modern accounting problems. These characteristics apply to each chapter of the literature review. This influence can be seen in the topics of each chapter: The Role of Accounting: An Overview; Critical Review of Indonesian Telecommunication History; and The Contemporary Stage of Indonesian Accounting.

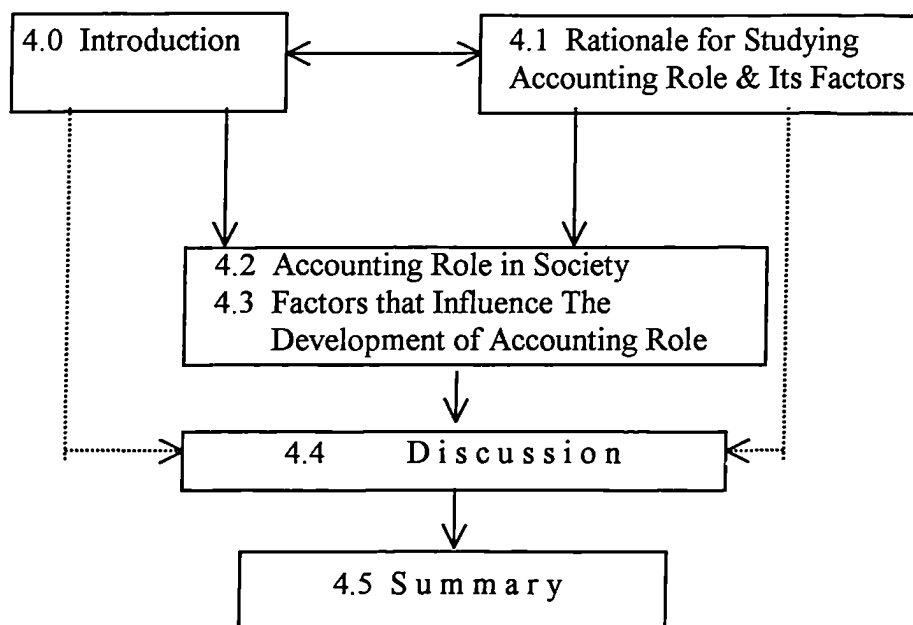
The notion of a literature review sometimes means 'to understand the past, we must discover the past' (Napier,1989,p.239), and, to increase mastery over the society of the present (ibid.,p.249). This means that we should collect, read and synthesise many ideas from literature.

CHAPTER FOUR THE ACCOUNTING ROLE: AN OVERVIEW

4.0. Introduction

This chapter contributes to establishing the conceptual foundation for the empirical field study by giving a clear understanding and overview of ‘the accounting role’ and its factors. Figure 4.1 below shows the flow of presentation for Chapter Four.

Figure 4.1
Structure of Chapter Four



Note:

———— = indirect
———— = direct

The question of how to focus the literature review is explored in section 4.0, leading to a rationale for studying the accounting role (section 4.1). In this section, the question ‘why and how do we need to search for an accounting role?’ or ‘what and how is the

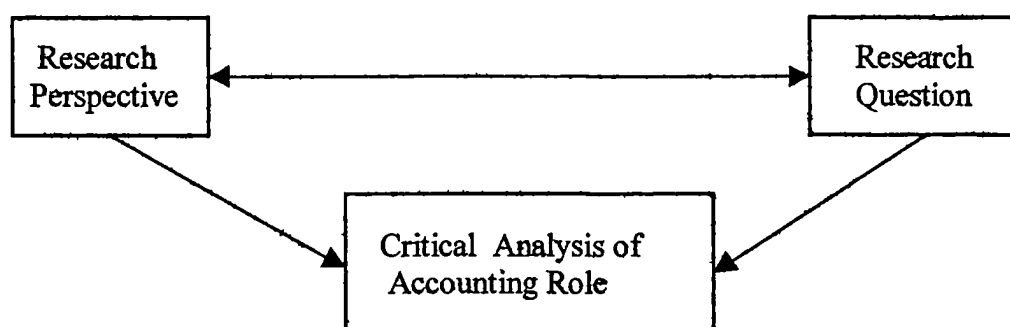
importance of an accounting role?’ will be answered. After these sections, the development of the debate about the accounting role and its factors is analysed critically, in section 4.2, which presents a review of the literature on the root of the role of accounting, and an insight into how people understand the accounting role. Next, in section 4.3, the background of the accounting role will be explored, in order to find the factors that influence the development of accounting role in society. In section 4.4, an analysis of the various meanings of the accounting role and its factors provides the possibility of developing an integrated picture of the accounting role. The outcome of this section will be very useful for analysing an empirical data. Finally, a summary of all the processes and findings will be presented in Section 4.5.

Focus of Literature Review

The need for this subsection was arose from the broad meaning of the accounting role. Indeed, the word ‘accounting’ itself has several meanings. In some textbooks, such as Belkaoui (1992,p.23), accounting areas were identified as financial reporting; tax determination and planning; independent audits; data processing and information systems; cost and management accounting; national income accounting; and management consulting.ⁱ The classification from Belkaoui however was only one of many grouping possibilities (Paton, 1962, p.4-6). It seems that accounting areas could be classified differently, according to their perspectives, interests and needs.ⁱⁱ Therefore, the word ‘accounting’ could be concluded as generating differing interpretations of terminology in relation to the accounting role.

In the light of this diversity of views and approaches, the notion of 'relevance' has been taken as the criterion for the literature, i.e. literature has been selected as being 'applicable' to the study.ⁱⁱⁱ The question, here, was how to implement the concept of 'relevance' in a selected literature. The flowchart in figure 4.2 indicated the criteria adopted.

Figure 4.2
The Focus of the Literature Review



The first issue considered was the study's objective i.e. the research question it sought to address. In line with Chapter Two, therefore, the first criterion was how the selected literature is able to explain the role of accounting in the context of privatisation of the telecommunication industry. One of the tasks of this study was to integrate the academicians' debate on the accounting role and the results of the field work in the telecommunication industry in Indonesia. As a mediator, the literature review provides guidance on how people think about the accounting role. In other words, the literature review indicates how to do research on the accounting role.

The second issue is the research perspective. As Chapter Two has explained, the research perspective is political economy. This is a social perspective, and demands a problem

solution in a social context (Roslender,1991,p.79-81), i.e. the empirical findings must be analysed in terms of social, political, cultural, and historical context (McNay,1994,p.1). Additionally, this perspective believes in the role of social change^{iv} (ibid.,p.3). These considerations lead to a focus, in the literature review, on the role of accounting in society.

This role is related to community development.^v An intention in this literature review is actually to promote a social - community view of the accounting role.

Two questions guided this overview of the accounting role. The first question was ‘why and how does society need accounting?’. This first question was directly followed by the second question, ‘what would be the benefit of studying the role of accounting?’ Both questions influenced the presentation structure, which follows: the first question is addressed in Section 4.2 and 4.3; the second is in Section 4.1.

4.1 The Rationale for Studying the Accounting Role in Society and Its Factors

Most theses put the rationale for their study area in their first chapters, the introduction and the methodological chapter (Haslam, Jim,1991; Yunus, Hadori,1991). In this study, the rationale for the study is based upon an impression of the selected literature. The literature implicitly provides a message about the lack of attention given to the understanding of how people have used accounting (Hopwood,1987; Burchell, et.al,1980). Additionally, specific literature that covers a current understanding of the

accounting role is very difficult to find. Thus, an exploration of the debate on the accounting role offers both an opportunity and a challenge.

What do people want to know about the role of accounting? Early observations suggested that there are two issues that people always want to know about. The first is the meaning of the accounting role. Most individuals with whom discussion was held, asked what was meant by 'the accounting role'. If the discussion reached a serious level, they would then ask what factors influenced its development. The first issue was dealt with in the previous chapter. In this chapter, the second issue will be elaborated. However, it must be recognised that the idea of the development of the accounting role can not be isolated from the meaning of the accounting role itself.

There has been a tendency to regard the role of accounting as synonymous with the role of accounting theory.^{vi} This opinion is the result of confusion between status and function. Status reflects the position of an entity among others. If accounting theory is the way to formulate accounting practice into a certain framework, it has the position of driver. On the other hand, accounting theory has become a tool for understanding accounting practice. This phenomenon gives accounting theory a functional attribute. From this discussion, it seems that the role of accounting is not the same as the role of accounting theory.

Next, an original perception of the accounting role is discussed. The accounting role reflects how people use accounting in their life (Burchell et.al,1980,p.22). This

perception conveys a functional notion, which reflects how accounting is able to share in the development of a society and an organisation (Burchell et.al,1980; Hopwood,1987; Laughlin,1987). Since the notion relates to the placement of accounting usefulness, it is in the area of accounting policy making (Secord and Su,1992). Belkaoui (1992) states accounting policy as an area '*.. to make choices ...*' (p.37). At the same time, he says '*... accounting changes as part of ... accounting policies*'(ibid., *emphasis added*). According to Belkaoui (1992,p.37), a place for the discussion of the accounting role has been allocated in the accounting policy debate. This means that a macro sense has been introduced into the accounting policy area.^{vii}

An implication of the above discussion is the justification of accounting policy as a rationale for an accounting role discussion. In general, an accounting policy is able '*... to predict and explain ... choice*' (Watts & Zimmerman,1990,p.132). These functions are a reflection of the micro sense of accounting policy. According to the Accounting Principles Board 'Disclosure of Accounting Policies' (April, 1972)^{viii}, the micro sense is about how management select '*specific accounting principles and methods of applying those principles...*'. The interest of management, as an entity in accounting policy making, is to *modify income through judicious accounting changes* (Belkaoui,1992,p.37). At this stage, management gains the capability of using accounting policy to increase or decrease net income; a capability which enables management to offer an explanation for financial reporting. Similarly, it has the same effect for other events that have a direct impact on accounts in a financial report; for example, in an inflationary situation, management is able to explain why it is necessary to alter the inventory system and to

disclose the impact of such a change. Besides being enabled to explain what has been done, or what situation currently exists, management is also enabled to make predictions about the future, by analysing and projecting historical-accounting data into financial reporting, management can prepare forecasts and budgets.

Thus, in line with an accounting policy justification, the accounting role debate creates explanatory and forecast capability for the accounting role (Belkaoui,1992; Secord and Su,1992). There are different ways of explaining the past and the present with regards to the accounting role, for example: firstly, the understanding of the past for its own sake; secondly, the locating of accounting in its socio-historical context; and, thirdly, the application of a positive accounting theory to history. These methods are derived from a social historical approach to accounting (Napier,1989,p.237). Within the first method, many accounting historians, such as Littleton (1981) and Chatfield (1974), have explored the accounting role by collecting various old documents and describing them. They denied any bias of interest and any subjective judgmental insight into those old documents. This sometimes raised the question of the validity of the documents. This question was caused by a conflict over certain issues, such as the bookkeeping issue between Littleton and Chatfield. While looking at the development of bookkeeping,

Chatfield (1974,p.3) mentioned that

... bookkeeping facilitates large scale business organization, during the Renaissance certain German city-states where it was adopted progressed markedly faster

This citation expressed a notion that bookkeeping mainly developed in, and for, large scale organisations. On the other hand, Littleton (1981,p.22) stated:

... bookkeeping has developed from very humble beginnings ...

Littleton stressed that bookkeeping originated and developed from very simple trading. Both references illustrate the problems in reaching a consensus on how the accounting role has developed over time.

Concerning some weaknesses in the first method, Hopwood (1983) promoted an approach to accounting history. He proposed to *study accounting in the context in which it operates* (Napier,1989,p.244). This method looks at accounting '*not as a technique*' but '*as one element of the social and organisational context*' (*ibid.*). This type of perspective gave prominence to thinkers or philosophers who served the function of allocating phenomena to certain contexts (Dillard,1991). The main influence on the contextualisers was the French writer, Michel Foucault (Napier,1989,p.245).

The third method for understanding the past and the present of the accounting role is the positive approach (J Kerlinger,1974,p.701-704). This method refers to the statistical testing of hypotheses and empirical data. Being closely connected to the economic models of accounting, the positive approach accommodated the weaknesses of the economic models, like the simplification of phenomena. In that respect, it has the capability of explaining the empirical data for certain events, for example, a capital market crash.

These three methods provide some possibilities for seeing the present and the past of the accounting role in different ways. They offer an explanation of phenomena. The substance of the explanation is about how people have used accounting at different times; how people have seen accounting as it is; and, how accounting was able to function in the past and in the present.

Another characteristic of the accounting role is forecasting (Secord and Su,1992,p.27) which is recognised easily by using the positive approach. The positive approach is said to have an inherent capability of '*predicting accounting practice*' (Napier,1989,p.246), although some experts of the accounting history are still debating this capability.^{ix} On the one side, it is stated that accounting methods seek only to describe facts as they are, while others disagree, arguing that by doing more work, they will be able to project into the future. They analyse the patterns of the past and the present phenomena and classify them into certain indicators, which are analysed to yield a projection.

In addition to these characteristics, explanation and prediction, which overlap with accounting policy, the study of the accounting role involves looking at the demand for 'justification' and the public interest. These characteristics bring us to the practical side of accounting. The background for the demand for justification originates from practical considerations. Referring to our empirical observations, the Indonesian government asked for an implementation of a modest accounting system around 1990s^x (Wellenius and Stern,1992,p.14-15). It used the capital market and the bank system as instruments. Companies were required to satisfy all the requirements of the government, as a regulator

for the capital market and the banking system. The aim of the requirements was to serve the interests of the investors and the public. Investors' interest was in the reliability of financial reporting. They need to be certain of the reliability of financial reporting. Their guarantors, in this respect, are the auditors, who should use accounting principles to audit the financial reporting of the company. Thus, in Indonesia, accounting was to provide evidence whether or not companies are capable of entering the capital market.

For the public interest characteristic, the starting point fact is an overlapping of the demand for justification and the public interest characteristic in regulation. The process of making a regulation is a political process. The political process is like a matching process between proponents' and the opponents' special interests. Both sides always give some arguments for supporting their interests in legislation and in regulations. If their arguments include financial control, the accounting role serves as a useful justification. This advocacy position will be based on the assumption that the political action is in the public interest,^{xi} i.e. that everyone is better off and no one is harmed. Related to this notion, governments and politicians demand the use of the accounting role in order to justify their actions to the press and their constituencies.^{xii} Support is more likely to be forthcoming if political decisions can be shown to be based upon public interest rationales, rather than special interest motivations. Consequently, the government and the politicians ask accounting to supply information as a basis for policy decisions. This means that establishment of accounting role optimises social welfare.

Both characteristics, the demand for justification and the public interest, are a reflection of accounting policy in a macro sense. They complement the characteristics that already exist within accounting policy. Therefore, accounting policy comes to consist of four characteristics: explanation, prediction, the demand for justification and the public interest. At the same time, these characteristics make the accounting role relevant not only to accounting studies, but also to other fields of study, such as economics, management, and politic.

The understanding on the benefits of studying accounting role led to a need to search the factors that influence the development of the accounting role. A major rationale for this need is to optimise accounting's functions in society. Studying the factors that influence the development of the accounting role will support the objective of studying the accounting role.

The study of the accounting role is closely related to the study of accounting policy. To understand how accounting functions in society, it is necessary to learn about how accounting policies regulate the way that accounting works at the micro and macro levels of society. Accounting policy is about how the implementation of accounting is managed in the context of organisations, industry and society (Hendriksen & Breda;1992,p.234-235). Therefore, the study of the factors that influence the development of the accounting role in society is the study of how to manage the role of accounting at the micro and macro levels of society. Since the role of accounting can be viewed differently depending on context, the focus should be on the transformation

process, i.e. factors that have caused or are capable of causing the role of accounting to change. Thus, a change in management perspective is the basis for this discussion.

The major advantage of acknowledging these factors is that it makes possible a self-monitoring system on the development of the accounting role in society. Such a system is a system to control the accounting functions in organisations, industry or society. If the influence of the factors can be characterised, they can be implemented to control the accounting function, i.e. to plan and direct the implementation of accounting functions, and to evaluate the implementation. However, since the process of characterisation of each factor involves a qualitative assessment, subjective indicators are used. This means that a 'judgement' is made, in order to evaluate the development of the accounting role. If the benefits of studying the factors can be obtained, a possibility of re-engineering the role of accounting will be a real opportunity.

4.2 The Accounting Role in Society

The discussion in Section 4.1 has shown the interest and value of the study of the accounting role and indicated how accounting as an entity has been given political and economic significance in human thought.

The concern with how people actually used accounting has been around for a long time. Many accounting historians have given their attention to the role of accounting instruments over time. Chatfield (1977,p.4) suggested that budgeting practice was important in the Roman era, though evidence of it cannot be traced because of the

destruction of relevant facts and documents. Nevertheless, he actually traced accounting's history from far before the Romans' time. He asserted that accounting as a technical recording system has existed for more than 7000 years. He states:

Various types of service businesses and small industries were established in the towns, and extensive trade grew up within and outside the Mesopotamian Valley. It was customary for every business transaction, even the smallest, to be put in writing and signed by the contracting parties and witnesses. (ibid.,p.5)

The way accounting historians see these historical facts is similar to the way the accounting role has been studied. Some historians, such as Littleton (1981) and Chatfield (1977), have reported many facts about accounting in former times. Their books tell a story about how business and accounting used to work. However, their descriptions are not sufficient to provide a complete understanding of the role of accounting. There are some other ways to understand the role of accounting (Burchell et.al,1980, Hopwood,1983, 1987; Napier,1989). In the following, three approaches to study the accounting role will be discussed: the financial economics perspective; the 'nature of accounting perspective'; and the social perspective.

4.2.1 Financial Economics Perspective

The financial economics perspective has a tendency to use the statistical method and the objective approach, characteristic of the functionalist paradigm. This section is particularly concerned with the critical perspective of the academician, Cheryl Lehman (1992), who stated the possibility of a change in social conflict of the accounting role. She legitimised a classification of the accounting role from a financial economics perspective. Here, she was concerned with the development of the accounting role from

an old to a new stewardship. On basis of her observations of literature, which she assumed had the capability to reflect the development of the accounting role, she raised the issue of an *incomplete* notion of a new stewardship. Before pursuing a discussion of Lehman's idea, it would be appropriate to consider first the role of accounting in financial economic terms.

Stewardship

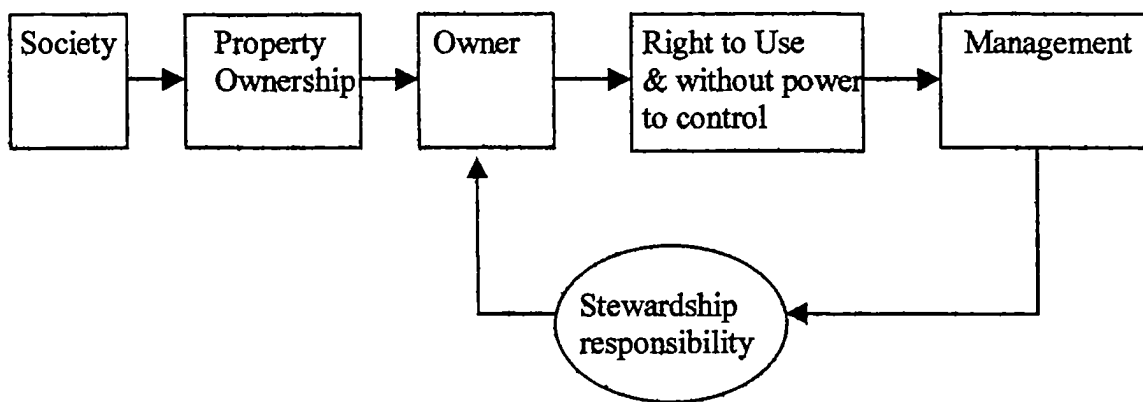
People see the origin of the stewardship terminology in different ways. Lehman (1992) suggested that the idea of stewardship stems from '*... a turbulent 'trust and bust' period of the 1890's (p.18)*'. On the other hand, Chen (1975) pointed to stewardship as *an old concept with a strong religious, ... Christian implication (p.534, with emphases)*'. She, Chen, continued her argument by referring to Littleton and Zimmerman's (1962,p.23-24) view that the *origin of stewardship accounting is generally traced to the medieval period'(p.535)*. Each of these academicians has his / her own viewpoint. However, this study is inclined to adopt Ronen's idea (1979,p.417), which is actually from Larsen's (1967,p.11), that stewardship is

an accounting by an agent circulated internally to a merchant ...

This opinion is in line with Chatfield's (1977). Ronen, here, mentioned that accounting was used as a stewardship tool in trading practice in ancient times, and suggested that accounting for a stewardship was more dominant in the past than in the latter part of the twentieth century. Since the origin of the 'stewardship' terminology directly influences the discussion of the 'stewardship' concept, an agreement over the origin of the 'stewardship' terminology will be a solid foundation for exploring the concept.

The essence of the stewardship concept is accountability (Ronen,1979,p.417). Chen (1975,p.535) suggested 'accountability' as 'a form of responsibility'. At the same time, she also called accountability a classical form of the stewardship concept. Based on the concept of a medieval - feudal system, she drew a framework for a responsibility network.

Figure 4.3
Chen's Concept on Accountability
(1975)



Source: Chen,1975,p.538

In the medieval period, everybody agreed that all properties belonged to society.^{xiii} This meant that if anybody (owner) had property, that property was from society. This relationship reflected a distribution of goods and service from society to the individual members in a society. The next step was that an owner, or a member of society, exercised his / her rights to use the property. However, the owner still depended on the environment or conditions of the society. S/he could maximise the utility of the property only if his / her environmental situation provided full supporting conditions for doing so. For example, in a war situation, there are restrictions regarding driving in a city; whereas

in peace time, these restrictions are lifted. This condition has given the owner the right to use property without the power to control its utilities.

However, owners were not satisfied with their conditions, and continually tried to influence the environment in order to gain greater control. The aim was to maximise the benefits gained from the property's utility. This attitude is called business, commerce or trading. The development in size and complexity of the property, the ownership and the environment created a need for another entity. This entity had similar duties as the owner, and was called entity management or professional management. Since the owner was the one who provided the job, the management was responsible to the owner. This responsibility mechanism is called the accountability process or the classical stewardship concept (ibid.,p.536).

From the above description, a conclusion about the motives for a stewardship concept can be drawn. There are two motives:

1. the existence of an economic relationship that evolved from the delegation of a resource allocation to a professional management;
2. a separation of ownership from management, necessitating accountability, by the agent to an owner.

For the first motive, the delegation process from the owner to a professional management involves an economic interest. This condition is legitimated by a contract. Anything that is related to the property and the relationship between the owner and the management is arranged in the contract. This means that the first motive is legalistic.

For the second motive, the delegation process has created a new entity in the working mechanisms. Since the source of the authority is the owner, the owner demands the responsibility of the management (agents). This demand is called the accountability process. This mechanism is arranged in detail in a contract. The aim of this process is to control the management through the fulfilment of their contract. The second motive, therefore, is to do with control.

Lehman (1992) had a slightly different opinion about the motive of an accounting role. She agreed on the second motive, but not on the first one. She argued that, considering the conditions in the 1890, stewardship comes from an *interrelationship between the profession and its purpose (ibid.,p.17)*. It is about professionalism. This is reflected in how the accounting profession is able to fulfil its duties in a society or a business.

The concern over the motive for accounting stewardship inspired a concern with the ways the concept is used. Lehman (1991,p.19) pointed out that the objectives of the stewardship role are to rationalise, and to justify, corporate entities, to legitimate corporate power and maintain confidence. The first objective emphasises stewardship as a means of control of and by the companies. It is in line with the second of the motives proposed by Chen. For the second objective, the key word is confidence. It is about how the company is able to fulfil its duties in a society or a business. In other words, the second objective is in line with the first of Chen's motives, professionalism.

Chen (1975,p.533), referring to a committee of the American Accounting Association (1960,p.4-5), suggested that the objectives of accounting stewardship are:

1. *effectively directing and controlling on organisation's human and material resources*
2. *maintaining and reporting on the custodianship of resources*

Referring back to the motives for accounting stewardship, the first objective is a derivation of control, the second motive; and, the second objective is in line with the first motive, a legalistic motive. A discussion on motives and purpose has shown the existence of cumulative thought in the accounting role debate.

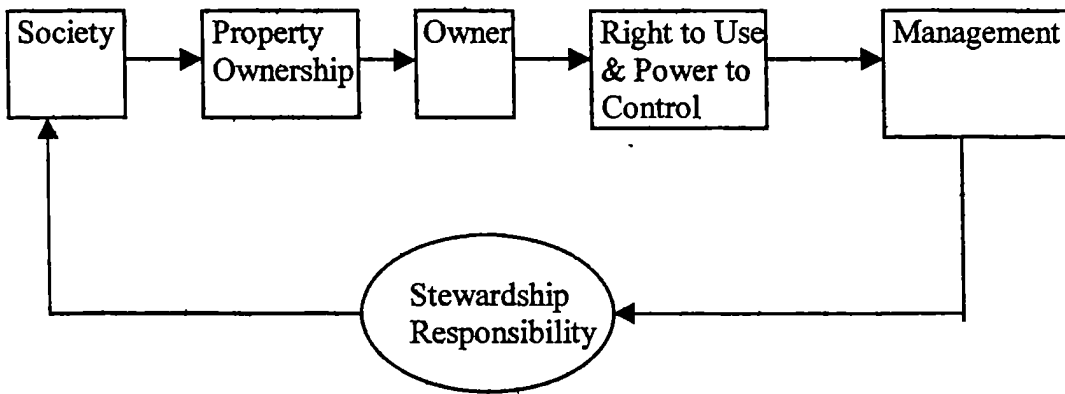
The differences in scholars' opinion have broadened understanding of the stewardship concept, and, hence, of the accounting role. Nevertheless, the facts indicate that the stewardship concept developed when social relationships became more complex (Chen,1975,p.535). This encourages us to continue a search for other developments of stewardship in the accounting role.

New Stewardship

Lehman (1992) promoted a developed form of the stewardship concept. She called it a higher form of stewardship (ibid.,p.20), which she considered to be primarily about efficient resource allocation. This concept requires an efficient administration of resources and the execution of plans for conserving and consuming them (ibid.). Chen (1975) put forward a similar concept (ibid.,p.533), but she called it not new stewardship, but a role of leadership or command (ibid.,p.534). This meant that the management operated with resources entrusted to it and made a profit from exchange transactions with

other entities. These activities pursued the welfare of their society. Therefore, she called the second prototype of stewardship, a managerial stewardship concept (ibid.,p.539).

Figure 4.4
Chen's Concept of Managerial Stewardship



Source: Chen,1975,p.539

Chen's concept is based on the manorial model of the medieval period.^{xiv} This model assumes that management, as an agent, has the responsibility of pursuing the welfare of its society (ibid., p.536), the reason being that a society is the actual source of ownership and control. A society delegates property ownership to a specific owner, in order to distribute the task of maintaining and improving the condition of the property. In this type of relationship, the owner obtains the full right to use the property and the power of control. However, the owner does not have the capacity to cover all responsibilities, so s/he delegates his / her job to management. In this context, the management should consider the sources of authority and control and, given that society is superior in this respect to the owner, managers own their primary stewardship responsibility to society.

This concept brings a social dimension to the primary stewardship responsibility. This prototype is quite different from the accountability model (see figure 4.3). The notion, here, is the tendency of management to refer back to the origins of authority and ownership. It seems that this prototype has a tendency to give a network of responsibility. It means that management should fulfil their responsibility not only because society has asked them to do so, but also because, in the long term, they are loss. Additionally, the increasing welfare of society means that individuals can buy more products.

In the above discussion, the motives of the new stewardship have been found to be dissimilar from those of the old stewardship. The motives of the new stewardship are:

1. the need for confidence in financial information ;
2. the need to ensure continuing public support.

For the first motive, it is not easy to have confidence in corporate data. To maintain people's confidence, a professional management needs a third party as a mediator. The task of the third party is to attest the corporate data and declared the result to society. Thus, the first motive is legalistic.

With regard to the second motive, management needs public support in order to maintain their existence in a society. One way to obtain this is to understand the society's interest. Society has an interest in the effective and efficient utilisation of resources. Thus, the second motive is economic.

The implication of the discussion of the new stewardship role is that accounting information should ultimately serve to enhance social welfare (Lehman,1992,p.33). As Ronen (1979) put it:

accounting should serve the goals of both the private and public sectors of the economy.... thus contributing to the attainment of broad social goals. (p.432)

From the discussion of purpose and motives it can be seen that the new stewardship role is about information on the efficient and effective allocation of resources. Here, the economic motive predominates. The legalistic concern is retained, but the same time, society has shifted from a control to an economic interest.

Agency Theory Influence

In the previous two subsections, the accounting role has been discussed in relation to meaning, motive and purpose. However, this omits a contemporary issue of the accounting role, the agency (theory) approach. The agency approach has become attached to the accounting role in literature. It has also become an attribute of accounting analysis in many articles (Christenson,1983; Mc Kee, et al,1984; Whittington,1987; Hines,1988; Watts and Zimmerman, 1990).

The tremendous influence of the agency theory on the accounting role has created two roles for accounting in the financial economic perspective. They are:

- 1. a means of monitoring for owners of the corporations to guarantee the safeguarding and effective management of the owner's assets entrusted to agents.*

*2. a means of informing shareholders and potential investors
about the prospect of investing in the corporations.
(Ronen, 1979, p. 416)*

The first role reflects the function of accounting as a tool for guaranteeing that management appropriately fulfils their stewardship functions toward the shareholders. This indicates that the first role is a stewardship role. The second role of accounting, in the financial economic perspective, is to provide information for resource allocation; internally within the firm and externally for the consumption of an investment decision. This supports the role of information in resource allocation.

In the discussion about the first (stewardship) role, the topics of standard uniformity and attestation become the most important ones. Both issues are of concern in relation to the auditing task. Auditors have to be licensed, in order to assure the purchasers of the value of their attestation (ibid., p. 424). Additionally, an increase in the uniformity of accounting standards and their application across firms and industries, constitutes one way of minimising the cost of reducing uncertainty surrounding inferences by investors (ibid., p. 426). So, the purpose of the stewardship role in the agency (theory) approach is to reduce the agency cost.

The second role is really in line with the agency approach's, concern with economic incentive and it is related to the social benefit argument (ibid., p. 432). In general, the aim of this role is to obtain an efficient allocation of resources (ibid.). Since financial information affects resource allocation, this role demands an overall guideline for examining the desirability of accounting alternatives (ibid., p. 433). Thus, an applied

definition of the accounting role has led to the informative role of a financial report. The informative role is, here, especially, about to convey information to the market transactors about various events relevant to the assessment of returns on the company's securities (ibid.,p.449).

The agency approach to the accounting role is quite popular for many researchers. Lehman (1992), without explicitly discussing the financial economic perspective, has discussed the implications of stewardship and the new stewardship for the roles of accounting in an agency theory context. The agency concept is also implied in her explanations of the accounting role, such as in her comment on:

*... accounting's role in reporting to outside owners of corporation
- its third party responsibility (AICPA,1973,p.25, in Lehman, 1992,
p.19),*

or in her suggestion that:

*... responsibility to outside owners (the old stewardship notion)
would have always necessitated considering management's
effectiveness and efficiency (the new informativeness role)
(Lehman,1992,p.20)*

Further, she raised the idea of a need for a social sense, based on her critiques of the *incomplete* notion of new informativeness role, which she criticised for its shareholder focus (ibid.,p.22) and neo-classical model criticism (ibid.,p.23).^{xv} She points out that accounting has been treated as useful information in a neutral way, in order to ensure efficiency in the market. The assumption behind that is that accounting 1)aids the investors in allocating their wealth; 2)functions efficiently; and, 3)maximises social welfare (ibid.,p.22). These assumptions and approaches have misled reflections on the

accounting role phenomenon. The divergence from competition is significant. Moreover market mechanisms cannot be relied upon, on their own, to allocate resources efficiently. Lehman refers to '*... social arrangements that facilitate the kind of monitoring (Ronen,1979,p.426)*', in order to show that the application of an accounting stewardship depends on society's will. She (Lehman,1992,p.31) also suggested that to reach an optimal accounting alternative, there is needed :

1. an action in a dictatorial fashion
2. a commitment from ourselves to make the value judgements
3. an abandonment of our assumption that a stockholders' utility is useful in assessing the role of accounting in an efficient resource allocation

Finally, she suggested that

accounting practice ... is not just derivative and reflective of social reality, it also creates and constitutes this reality (ibid.,p.55)

This suggestion has been applied to her accounting partisanship research (ibid.,p.85-142).

From the above discussion, it can be concluded that agency theory has been utilised as the starting focus of research on the accounting role. The concept is one of the most popular approaches in current accounting texts and researches. In the light of this fact, it might be thought that the concept of an accounting stewardship is a derivation of the agency theory approach. This impression is, of course, incorrect. However, without neglecting this fact, the term 'financial economic perspective' has been utilised in the title of this subsection, in order to clarify the focus.

In the discussion above, the financial economic perspective is seen as a reflection of what people ask from others in society. In a relationship between entities, a legal responsibility for any arrangements between them is demanded. This type of responsibility is included in the stewardship function of the accounting role. In a relationship between society and organisation, a clarification is required about the contribution of the organisation in optimising social welfare. This accountability relationship is the image of the new stewardship function of the accounting role.

4.2.2 The 'Nature of Accounting ' Perspective

The controversy over the origins of the financial economic classification has motivated a search for other possibilities. In this subsection, another classification from a management perspective is offered. Power and Laughlin (1992) explored the development of the accounting role in terms of the nature of accounting. The purpose of their critical exploration was actually to promote critical theory, especially Habermasian, among other accounting research approaches. However, if we do a thorough reading, we will benefit from seeing how they approached the subject of the accounting role.

The structure of this subsection follows the thought of Power and Laughlin (1992). It starts by discussing technical recording (calculation) as the first form of the accounting role, and decision making as a developed form of the accounting role. However, these two accounting roles are actually not separate from each other. They are integrated together within accounting, through history accords them different emphases.

Calculation

In the earliest times of human history, people recognised accounting as *record keeping* (Chatfield,1977,p.5). During the Babylonian era, for example, it was customary for every business transaction to be put in writing and signed by the contracting parties and witnesses. However, it is a matter of debate whether the existence of bookkeeping was the origin of accounting. Littleton (1981) stated

Babylonian mortgages impressed in cuneiform characters upon clay tablets and Egyptian tax collections painted in hieroglyphics upon papyrus can still be read after more than 4000 years.(p.13)

Chatfield (1977) estimated that tax collection and mortgages practices date back more than 7000 years (ibid.,p.4). However, neither Chatfield nor Littleton, saw any sign of double-entry bookkeeping. They noted that the practice was about record keeping, control and verification of problems (Littleton,1981,p.4). To have control and verification, an arithmetical mechanism, such as addition and subtraction, is manipulated to do a simple computation. These phenomena indicated an accounting role as a technique of quantification / calculation (Laughlin and Power,1992,p.114). This calculation role was necessary in order to enable the smooth functioning of business.

Thus, the capability of accounting in the past was simply to 'represent' an economic reality (ibid.). As business developed in size and complexity, however arithmetical manipulation was no longer sufficient, and guidance was needed for recording and computing data from a business transaction. At this stage, double-entry bookkeeping began to play its significant role ^{xvi}, and at the same time, the need was felt for a formal

set of procedures.^{xvii} Laughlin and Power's (1992) analysis of the nature of accounting actually starts with this stage.

The form of the technical accounting role consisted of arithmetical manipulation and accounting procedures which had neutral and incontestable characteristics (ibid.). With regard to the first characteristic, accounting was seen as a separate entity in its own separate 'box'. This meant that an analysis of accounting ignored the existence of any intervention or interface, with non-accounting matters.

Regarding the second characteristic, accounting procedures were never intended to have a double meaning or an implicit one. What is stated in accounting is an explicit meaning. Guidelines direct accounting practice to certain methods for recording and summarising a business transaction, and, finally, for producing a financial statement. This process is certain and clear. The guidelines are accepted as a given; they are unquestionable.

A discussion of the above characteristics guides us to the purpose of the accounting role in terms of technical quantification. The integrated mechanisms of arithmetical manipulation and accounting procedure produce a capability to comprehend knowledge about a financial statement. They guide us to use the proper instruments and methods in order to gain knowledge. However, there is no actual control on the process of producing the financial statement itself. This condition is a result of the uniform treatment of accounting in different settings. In other words, this role is a decontextualising image of accounting (ibid.,p.133). The purpose of the role of accounting in a technical

quantification is concluded as being to supply guidance on the proper means and method to achieve a given informational end (ibid.,p.114).

In the discussion above, it can be seen that knowledge about the role of accounting in a calculation is a reflection of what people needed from accounting. When accounting was only needed for record keeping, it was only a business record. After that, when business organisation became complex, wider and more detailed understanding of business was needed. At this stage, accounting developed the double entry method and procedure. However, there was still the need to obtain a number for certain accounts. This means that the role of accounting in a technical calculation fulfils the users' needs for a certain period. A change in the phenomena within society will affect these needs, and the role of accounting will change and develop.

Decision Making

After the Second World War, business became faster, bigger and more complex. This caused a change in business society. In turn, it also altered the demands individuals made of accounting.^{xviii} Laughlin and Power (1992) pointed out this shift by citing ASOBAT, a publication from the American Accounting Association in 1966, in which was stated that:

'accounting information must be useful to people accounting in various capacities both inside and outside of the entity concerned'
(AAA,1966:8)

This statement ascribed information to accounting, as a permanent attribute. It created a new name for accounting, as accounting information. This shift made a significant impact. Accounting changed its image from being non-user to user-oriented.

(Beaver,1968; Watt and Zimmerman,1990) The word 'information' gave accounting a communication dimension (AAA,1966,p.1). It placed emphasis upon how an accounting product or process could be understood. This gives two additional characteristics to accounting information: acceptability and the accessibility.^{xix} Acceptability is to do with how people agree to, or receive willingly, accounting information. Accounting information may take the form of a financial statement or some analysis of accounting data. The meaning of acceptability can vary. It can be a no-dispute response, or a willingness to use and develop accounting information. The second characteristic, accessibility, reflects the availability of accounting information for use, for consideration, and for decision-making. This characteristic implies that if users need accounting information, they will be able to obtain it. Nevertheless, the communication function of accounting information cannot work properly in conditions of disorganisation and centralisation. Individuals will have difficulty in using unorganised accounting information. This means that unorganised accounting information is not user-friendly. In these conditions, accounting information will lose its communication capability. On the other hand, a user-friendly pack of accounting information may still lack communication capability if the owner is unwilling to supply the information. There could be many reasons behind such a situation, such as secrecy and economic and political reasons.

The statement from ASOBAT also attributes a flexible character to accounting information. Accounting information can be used in any capacity and in any work, inside or outside an organisation. The unlimited scope of accounting information has furnished accounting people with the ability to make innovations beyond the accounting field. It

also permits access to the technology and knowledge of other areas of expertise, so that a comprehensive understanding of the accounting phenomena can be acquired.

An understanding of accounting information raises the question, 'what is accounting information for?'. In general, the usefulness of accounting information is to guide users.

Laughlin and Power (1992) even emphasised this opinion by saying that:

... the textbook image of accounting as information for economic decision-making is promoted(p.8, with emphases)

This statement provides evidence of a tendency for accounting to take a role in decision making.

In the above discussion, the motive and purpose of the role of accounting in decision making have been explored. But what are the characteristics of that role? Two characteristics can be identified: novelty and representation (ibid.,p.116). The first characteristic, novelty, reflects this role's emphasis on change. The accounting role in decision making is the result of a desire for change. Management will use accounting as a tool to implement their wishes. In the end, accounting can be an indicator of how change has taken place. So, the accounting role in this situation is the result of change, the motivation for change and, finally, a means to evaluate change.

The second characteristic, representation, furnishes the accounting role with the capability of describing a specific quality or feature, in terms of the various degrees of contextualisation of the decision making process. Contextualisation, here, is closely

related to a perspective about accounting practice. It can be concluded, with regard to this characteristic, that the accounting role in decision making is open to various interests, perspectives or people's concerns. This means that the accounting role depends on the decision makers.

Related to these characteristics, Laughlin and Power (1992) also raised the issue of connecting the role of accounting in decision making to a contextual level of analysis.^{xx} Within this framework, they (Laughlin and Power, 1992, p.118) offered an 'epistemological map' as a basis for articulating the relative theoretical commitments of the different perspectives (ibid., p.117). For them, a framework is *a simplification (ibid.)*. It reminds us of the fact that *each perspective would not see itself in this way as one of a number of options (ibid.)*. However, this framework supplies a picture of the different degrees of contextualisation of the decision making process.^{xxi} This means that various different perspectives can be held of the role of accounting in decision-making, such as positivism, Marxism, critical theory, and ethnography (Kaplan, 1983; Cooper and Sherer, 1984; Dent, 1986; Watts and Zimmerman, 1986; Tinker and Neimark, 1987; Armstrong, 1987; Preston, 1990; Robert and Scapens, 1990). This is in line with accounting's representation characteristics.

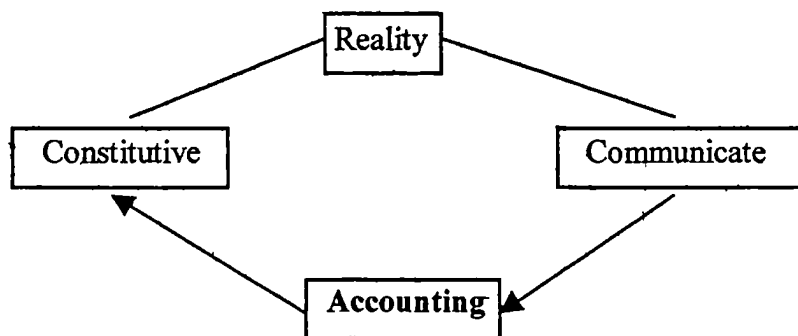
The accounting role in the 'nature of accounting' perspective can be concluded as a reflection of organisational activities. For simple activities, accounting is useful to record the transactions and, then, to calculate the profit and other financial accounts. For more

complex activities, accounting functions not only to record and calculate, but also to aid decision-making.

4.2.3 A Social Perspective

In the previous subsection, the accounting role was discussed from an organisational viewpoint. Since the scope of the discussion is organisation, the previous section could be called the organisational perspective. This perspective has been challenged. Burchell et al. (1980) suggested that accounting cannot be conceived of as purely an organisational phenomenon (p.19). They suggested the possibility of an accounting role in a social sense. In this section, this possibility will be explored.

Figure 4.5
Accounting Role in a Social Perspective



Hines (1989) searched for an interactive and mutual relationship between reality and accounting. Her aim was to locate the major role of accounting as constituting and communicating a reality (ibid.,p.53). She assumed that the focus of reality, here, is an economic reality. People act and translate their attitudes into an economic interest, and actualise this interest into accounts. This makes accounting information an economic good. In this sense, accounting has the capability both of constituting, and of communicating economic reality. Figure 4.5 shows those ideas. This function involves a

complex of social elements, such as social, political, cultural and economic aspects. To illustrate, the very different aspects of the social functioning of accounting have highlighted an inherent tendency to produce formal regulations. Burchell (1980) mentioned:

... in terms of technical elucidation and standardisation, attention has now been devoted to the institutional and political components of the regulatory(p.21)

This statement contains several ideas. First, the attention in accounting was shifted to the institutional and social elements of the regulation. Since politics is the most practical dimension of the social elements, people focused their attention upon a political analysis before other social elements. Second, standardisation is not only about a technical codification, but also about a matching process, i.e. negotiation among interest groups in a society, which will involve bargaining and compromise. Third, an institution is an entity, which will implement the regulations. This holds a legalistic meaning. People understand that the most important thing about standardisation is implementation. In this case, support from the entities is necessary. The usual way to obtain such support is by legal enforcement. Entities must follow the regulations, in order to be acceptable to society. Fourth, the regulation of accounting is complex, consisting of both objective and subjective components. The objective elements are concerned with procedure and regulation. The subjective elements are concerned with the social analysis of the processes of constituting regulation and the impact of the regulations themselves. Both elements are inherent in each of the separate regulations. Those notions address regulation as a concrete form of social product. A regulation reflects the character of the society in which it is implemented. The first and fourth notions interpret how to

communicate a society's reality, while the second, the third and the fourth notions contribute to constituting that reality.

Some difficulties have been raised in implementing Hines' framework in an interactive and mutual relationship between reality and accounting. The actualisation of interests into economic accounts has the tendency of neglecting language, thinking and everyday life. (ibid.,p.55). This will result in a failure to reflect society's main need. In addition, Hines' framework should be concerned with the social attribute as a subject of resistance, i.e. the idea that a social sense always invites a counter intuitive. This is sometimes identified as a source of threat to the status quo.

This criticism of Hines' framework has been answered by Burchell et al. (1980), who see accounting as capable of intertwining social and organisational practice (Burchell et.al,1980,p.19). Accounting is an agent for a particular concept of rational action. (ibid.,p.21). This concept needs to be examined in accounting analysis. If we study accounting, we can also learn about the "accounting people" and in turn, the society in which the "accounting people" live. Hopwood (1980,p.3) called this concept a socio - psycho - technical view of accounting. This concept demands the act of looking beyond the immediate implications of the accounting technique. Burchell et al. (1980) indicated that the actual accounting practice has implications for the furtherance of many, and very different sets of, human and social ends. However, this creates an area of enormous, and largely uncharted, complexity (Burchell et al.,1980,p.22).

From the above discussion, the accounting role can be seen from a social perspective as being a reflection of accounting's usefulness in society. When the usefulness of accounting, for example the usefulness of financial reporting, is understood, accounting is allowed to tell the truth in society. This is the communicating function of the accounting role. Further, when the capability of the accounting product, such as the meaning of the profit account, is understood, accounting (profit) numbers will be a target of management's work.

We would like to continue our discussion by elaborating an idea of Lehman, which we began in Section 4.2.1. In that section, it was noted that Lehman attacked an incomplete notion of the new stewardship role. She suggested the need to include a social sense. That need is accommodated in the social perspective on accounting. In other words, that perspective represents a stage in development of the stewardship debate.

Lehman (1992,p.60) assumed that accounting is a social practice. To understand accounting, people should pay attention to the social circumstances surrounding accounting practice. She mentioned two fundamental aspects of any society:

1. *how it organises to produce the means of existence for its members*
2. *how that social product is distributed*
(*ibid.*)

The first fundamental aspect emphasises a production mechanism. Lehman found that a relationship among people as producers in economic reproduction / production is crucial in constituting society. Comforth (1980,p.264) stated:

that the social mode of production of the material means of life, the ways people relate to one another in keeping reproduction going and in appropriating its product ... have been of primary importance as the man - made conditioning circumstance of all social life (emphases added)

This question implies that different production relations will work in different societies. For example, a primitive society, which has relative economic equality, little social differentiation and no private access to the production system, is different from pure commodity societies which have developed various customs and ceremonies (Lehman,1992,p.61).

A second fundamental aspect developed is the distribution idea. Different types of societies have their own distribution mechanisms. For example, a primitive society where females and males share in the division of labour and where a hierarchy of importance, power, or domination among these divisions is unlikely to exist, is different from a pure commodity society which has competition among primary producers (who alone exchange what they have produced in a simple commodity circulation) (ibid.,p.61-62). The distribution, here, actually implies social conflict in the societal system. In other words, the second fundamental aspect is in line with the role of accounting in communicating a social reality.

4.3 Factors that Influence the Development of the Accounting Role in Society

The discussion of Section 4.2 has explained the rationale for developing this section. Since there are many possibilities for presenting this topic, a decision has to be made as to which presentation method should be adopted, according to the emphasis of the study. The presentation could be based on articles, periods, contexts, and perspectives. Here, it has been decided to use a periodic sequence to present the ideas of this chapter, in line with the argument that the development of the accounting role is about changes. This approach allows comparison between different periods to be undertaken.

Thus, in this section, the factors influencing accounting are classified into three distinct time periods: the 1930s, the 1970s and the 1990s. This classification was suggested as a result of reviewing the relevant literature.

4.3.1 The 1930s

The period around the 1930s was a significant one in world history. Many significant world events occurred during this period: the crash of the New York Stock Market in 1929, the economic depression in 1933, the outbreak of the Second World War in 1939. This subsection will discuss how accounting academicians saw these events influencing the development of the accounting role.

Only a few academicians have discussed the influence of the events of the 1930s on the accounting role. Chen (1975) did some research into the origin of financial stewardship (See Chapter Four). She suggested that it resulted from an accumulation of events from

around the 1930s, especially in the United States. In particular, she referred to what she called 'the stewardship crisis of 1929' (Chen,1975,p.538), the initial stimulus of which was the crash of the New York Stock Market in 1929. *This crash left shock waves which reverberate 60 years later* (Hendriksen & Breda,1992,p.65). The depression started as the result of the ending of the First World War in 1919. During the 1920s, the psychological impact of the end of the war created a demand for consumer goods, plants and equipment. This condition fuelled an investment boom. For example, there was a rapid expansion of new industries making radios, telephones, motion pictures and, most markedly, the automobile. Car production, alone, by 1929 had increased eleven times since 1913 and by nearly three times since 1919. The unofficial employment figure in 1929 was as low as 3.3 percent and labour productivity had multiplied significantly. This was one of the best ever periods for the American economy.

By 5 September 1929, conditions were changing. A prediction from Roger Babson, a respected financial advisor, created fear in the public (ibid.). One month after that, on 21 October, and again on 24 October, the market dropped hundreds of millions of dollars in value. By 29 October 1929, stockholders had lost \$15 billion and a great economy was in the process of being ruined. The days after the crash of capital market were bad news. Private investment dropped 90 percent and production fell 56 percent (ibid.). Even though the causes of the crash and its effects remain controversial (ibid.,p.66), accountants could not escape severe criticism. Berle and Means (1932,p.182-183) stated '*accountants themselves have as yet failed to work out a series of standard rules*'. They also attacked the concentration of power in the hands of the few:

So long as accounting standards are not hardened and the law does not impose any specific canons, directors and their accountants may frame their figures, within limits, much as they choose (ibid.).

In the face of such comments, it was imperative that accountants improved their professionalism.

There is another way of viewing the 1929 situation. Statistically, the proportion of corporate wealth (other than banking) controlled by the 200 largest corporations was approximately 49.2%. Of these 200 big companies, 44% in number or 56% in wealth, were controlled by professional managers (Chen,1975,p.538). During that period, some of the management from these big companies considered themselves so professional that they did not hold themselves accountable to any party (ibid.). In other words, management defined their own responsibilities.

Historically, both these phenomena, in the 1920s and 30s, brought a period of stewardship crisis. The management (accountants) tended to assume no stewardship responsibility either to the owners or to the public, disregarded their stewardship role.

The crisis of stewardship period ended during the 1930s' depression (ibid.). During the period of recovery of the economy, some changes had already taken place. Business ideology had raised its base over social responsibility, this ideology gaining strength as a result of the economy recovering and a growth in social consciousness. Chen (1975)

described this situation by citing Bruce,(1916,p.12):

... a socially beneficial use has always been, and always should be, the one test and basis of the so called property right; that no man in society has a natural and unlimited right to own and to do as he pleases, and that the public welfare has always been, and always will be, the highest law and the test and the basis of the only lasting title deed

In this quotation, she reflected the new consciousness that the exercise of a right might affect the right of others; that once people '*socialised their property*', they should be concerned about '*an involvement of the interest of the society*' (Chen,1975,p.538).

Other changes, such as the growth in business size and the increase in managerial control, demonstrated the impact of the stewardship crisis in 1929. Chen (1975,p.539) mentioned a shift in the orientation of stockholders. Stockholders no longer had full control of the company. Small stockholders lost their power of controlling management. They had to understand that their roles were different. In the 1930s, investors were concerned that when they invested capital in a large corporation, they granted management full power to use and control their resources. Since the other side of the power of management was responsibility, management automatically accepted a social responsibility.

The events of the 1930s can be regarded as contributing to the change in the characteristics of the business ownership. In the past, ownership had been highly diffused. People assumed business to be a collection of capital from investors. The larger the business size, the greater the amount of capital needed. As only a few people were able to contribute a certain amount of capital, ownership gained full control over the

managerial process. From the 1930s, the situation of ownership became different. The dispersed ownership had transferred the power of control to management. The shifting of control to management created other types of stewardship, e.g. towards employees, customers and society as a whole. In other words, management has a stewardship obligation to the public.

As the above discussion has shown, the impact of the crisis of stewardship led to increased social consciousness in the concept of the accounting role, and a practical response in accounting practice, a change in the accounting role. Hoxsey, J.M.B., executive assistant of the Committee on Stock List of the New York Stock Exchange, criticised the lack of uniformity in accounting practice (Hendriksen & Breda, 1992, p.66). Even though this criticism was *a little unfair* (ibid., p.67)^{xxii}, the accounting profession in the US gave it special attention by suggesting that the certification of accountants should be an attribute in the financial statements of listed companies. By certification, it was meant that accountants should be 'qualified under the laws of some states or country'. It should be noted that this accounting practice had already been in existence, in Britain, for 89 years.

The requirement that accountants who prepared financial statements be certified was one way that the accounting profession answered the demand for public stewardship. The consciousness of the impact of financial statements upon public welfare had stimulated the accounting profession into considering its social responsibility. This consciousness on the part of the accounting profession was only one of various ways that social

responsibility consciousness grew in the 1930s. Alternatively, this response could be interpreted as one way the accounting profession survived in society. However, the response left one large question unanswered: 'how to evaluate the accomplishment of social objectives?' A debate on this matter still continues up to now, and is sometimes considered to indicate a weakness of accounting relating to the objective of supporting the public welfare.

In the above discussion, it was shown how factors that influenced the development of the accounting role reflected the social conditions of the 1930s. This fact implied that the accounting role was part of the social phenomena; furthermore, that these social events constituted the development of the accounting role. In this case, the stewardship crisis events and the growth of social consciousness provided impetus for the development of the accounting role. Additionally, the development itself had a tendency to move toward social objectives.

4.3.2 The 1970s

The growth of social consciousness which began in the 1930s continued. By the 1970s, this consciousness had become stronger and more solid. Some academicians saw a need to understand accounting not only as a technical thing, but also as a part of social life. Scapens (1990,p.107) indicated a shift from presenting accounting *as a set of neutral, objective techniques available to managers* to accounting *as an integral element in a system of domination*. Furthermore, in the conference of Role of Accounting in Organisation and Society in UCLA, 1980, Eric G Flamholtz (1980,p.3) stated the mission

of the conference as *to recognise the effects of accounting on individuals, organisations and society*. Both academicians delivered a message on the change of accounting orientation from a technical mean to an organisational and social mean.

Related to those phenomena, Burchell et al. (1980,p.5) indicated that some changes had already taken place. For example: accounting had become general economic management; and, accounting had become a cohesive and influential mechanism for economic and social management. They mentioned various factors that had caused these shifts, such as management of financial sources; the creation of particular patterns of organisational visibility; the articulation of forms of management structure and organisational segmentation; and the reinforcement, and indeed the creation of particular patterns of power and influence (ibid.). Each of these factors will be explored below.

4.3.2.1 The Management of Financial Sources

The comment made by Burchell et al. (1980) that

*accounting developments now are seen as being increasingly associated not only with the management of financial resources
(p.5)*

implies that people had acknowledged this factor before. Indeed, Chen (1975) mentioned this factor. Although Burchell et al. did not explicitly refer to Chen (1975), we assume that they accepted that this factor originated a long time prior to their writing. The management of financial resources is a symbol for ownership and for the creditor (Brealey and Myers,1991). Both creditor and owner share the capital of the company.

They also obtain full control of the management. Ultimately, they expect to be the first to receive an allocation of the benefits.

Financial resources, then, have been a symbol of the power to control. Owners provided funds for the company, in order to get a feed back stock earning in future. The creditors lent their money for the purpose of getting interest and principal. Both were concerned to increase their own welfare. In the past, when the size of business was relatively small, many people had a capability of furnishing the funds and, in turn, had the power to interface with the managerial process. By the 1930s, the situation had altered. Since business size had increased, only a few people were capable of contributing funds. So, management in an innovative way sold company shares in the capital market, or sold the company's obligation. This condition created increasingly more complex procedures concerning the management of financial resources.

In the 1930s, the management of financial resources had caused a shift in the accounting role. In 1970, it demanded more careful work, which can be classified into investment and fund management (ibid.). Many technique were adopted to aid planning in investment and fund management, such as net present value, discounted cash flow and tree decision - making. The existence of such technologies in financial resources management was caused by the complexity in calculation and a demand for a level of analysis. So, in the 1970s, the management of financial resources shifted the role of accounting from calculation to decision making. (See Section 4.2)

Our conclusion above has presented the functions of financial resources management in terms of the technology for decision making and the stewardship relationship. As a feature of the stewardship relationship, financial resources management placed more emphasis upon legality. More stress was given to how management was able to fulfil their contract. On the other hand, as a technology for decision making, it gave more emphases to technical matters. This means that financial resources management has had a tendency towards technological, instead of social, economic and legal development.

4.3.2.2 The Creation of Particular Patterns of Organisational Visibility

In contrast to financial resources management, Burchell et al. (1980,p.5) mentioned the next three factors as new developments in the accounting environment. These three factors are related to the development of the organisational analysis of the 1970s. This means that Burchell et al. (1980) codified the impact of those phenomena into the accounting role development perspective.

The development of organisational patterns grew rapidly from the 1950s (Thompson & Strickland,1995:p.432). An organisation was initially based upon general management skills. People were trapped in post Second World War psychology. Consumption demand was high. Many countries were experiencing an economic recovery. This post-war attitude had a positive impact among the population. Business grew. During the 1950s and 1960s, many conglomerates were established, focusing on mass production. However, the demand of business was still restricted by the general basic skills of management.

This demand changed in the 1970s. The value added concept shifted corporation to the strategy concept and the portfolio planning techniques (ibid.,p.433). During this decade, business organisations started to diversify, though mass production characteristics still characterised manufacturing companies. Technological information became a competitive advantage for companies. Business people focused their attention upon resource allocation problems and balanced portfolio management (ibid.).

In the two previous paragraphs, the sense of a changing environment has been conveyed. This changing situation caused a challenge for organisational analysis, in relation to several analytical problems, such as: action, power, levels and process (Benson,1977,p.5). Work on the action problem emphasised the grounding of organisational patterns in the interactions and practices of people. Patterns have also been seen in recent studies as the expression of power relationships. The levels problem involves the analysis of inter-penetration and interdependence between distinct sectors of the social structure. The concern with process involves the continuous transformation of organisational patterns. In subsection 4.3.2.3, there is a further discussion about levels. In subsection 4.3.2.4, a discussion about action and power will take place. First, however, let us consider process.

As indicated above, process concerns the continuous transformation of organisational patterns. The purpose of such transformation is to adjust to the development of business competition and the organisational environment. It is about how to improve

organisations' adaptive capabilities. The topic of organisations' capabilities can be classified into the implications of societal environments for organisations; and interactions in inter-organisational networks (Nystrom & Starbuck,1981). In the first of these areas, changes in the social environment, for example in technology (Shen,1981), in norms (Moch & Seashore,1981) and in population movement (Morrill,1981), had the significant contribution of improving organisations - making organisations more efficient, more humane, more rational, more fun, and more useful for societies (Starbuck & Nystrom,1981,p.xiii). On the other hand, the second generated an opportunity for improvement. The development of conglomerates motivated a redefinition in the meaning of organisation, which included organisation-sets, action-sets and networks (Aldrich and Whetten,1981,p.385). This means that the study of organisations moved beyond single organisations to an examination of the populations of organisations relating to their environment.

The influence of the environmental developments and the potentials inside the organisation led to an innovation in the patterns of organisations. In the 1970s, divisionalisation and the matrix structure of organisation became the symbols of developing organisations. The idea of these types of organisation co-ordination structures concerned the contract between parties or network arrangements (Gottfredson & White,1981,p.471). The other practical forms of the arrangement were mergers and price - fixing agreements (ibid.). However, the innovation was not only for large corporate, but also for middle-sized and small businesses. The concept of a partnership

either in the form of a joint venture or collective bargaining (ibid.) was becoming a usual practice for business.

An understanding of the development of the patterns of organisation led us to investigate how accounting worked in the 1970s. The role of accounting in decision making dominated organisational activities. Resource allocation problems and decisions over corporate strategy were the main concerns for management. Additionally, management were anxious to obtain accounting analysis support for their decisions. This showed a tendency for an implementation of a decision making model within accounting data. The greater needs of accounting for decision making made the development of management accounting faster than in any prior periods.

In inter-organisational relationships, the feature of an accounting role for the new stewardship was becoming visible. The inter-organisational networks were actually based upon contractual arrangements. Legal and economic responsibilities were inherent in the contracts. This meant that a failure to fulfil the contracts would have legal and economic impacts. Since the measurement of the legal impact was in economic value, more attention was given to the economic than to the legal dimension. Additionally, the purpose of contracts should be in line with the public interest. As a result, contractual arrangements always tended toward public welfare.

From the social perspective, the patterns of organisational visibility were concerned more with communicating reality. The development of organisational patterns focused on how

the organisations were able to achieve their objectives. In other words, it was about how management were able to optimise their resources. In management terminology, the guiding question for organisational activities was how to increase effectiveness and efficiency. Considering the objectives of the organisations, the role of accounting had a tendency to communicate reality, rather than constituting reality.

The development in the patterns of organisations' visibility has been shown to have a positive impact on the functions of accounting in organisations and inter-organisations. The dynamic of organisational patterns had pushed accounting into more dynamic and applicable business practice. Within organisations, accounting came to function, not only as a calculation, but also as a part of the decision making process. In inter-organisation relationships, accounting data provided a useful aid to decision-making, especially relating to contract arrangements, where economic interests were dominant. The role of accounting, here, was to allocate economic resources. As a conclusion, the notion of the new stewardship role predominated.

4.3.2.3 Articulation of Forms of Management Structure and Organisational Segmentation

Another factor mentioned by Burchell et al. (1980) is an articulation of the forms of management structure and organisations. The word 'articulate' means to express something (in this case, 'organisation') clearly in our own words. Chandler and Daems (1979,p.3) perceived market economics organisations as having three main actors: markets, firms and interagency arrangements. They also articulated the view of organisations as a reflection of economic functions, meaning allocation, monitoring and

co-ordination (ibid.). Allocation is about resources to be allocated. Monitoring is about the performance of an activity on the part of the organisation to be monitored. Finally, co-ordination is about the flow of materials, funds, services and information between activities of the part of the organisation to be co-ordinated.

Next is a further discussion on the varieties of market economy organisations. In a context of exchange economics practice, the fundamental economics function is interpreted as the price system. The price is the symbol of allocation of economic resources. The dynamics of price is a means of monitoring economic conditions. The efforts to manage an economy can be co-ordinated by the manipulation of price determinants. However, Chandler and Daems (1979,p.4) had a different interpretation. In exchange economics, monitoring means self-commitment of the units of activity to check the performance of the functioning and the rewarding of these units themselves. On the other hand, co-ordination is the process of structuring and facilitating the flows and transactions between parts of the organisation. This means that the price system has not been sufficient to reflect all the economics' functions. Chandler and Daems (1979) proposed administration and interagency arrangements to complement the price system. By administration, they meant a formal hierarchical organisation and control system, while interagency arrangement is a reflection of formal and informal conventions. These suggestions were derived from the historical facts on types of productive activities undertaken by the firm (ibid.,p.5).

Some types of productive activities can be explored in history, the first being from Adam Smith. Adam Smith laid the foundation for modern micro-economic theory with his discussion of specialisation of economic activity with the co-ordination and monitoring performed by the now famous, 'invisible hand of the market'. The second is from Joseph Schumpeter. Joseph Schumpeter pointed out how an entrepreneurship is a way to stimulate an innovation activity, which faces a challenge from the bureaucratisation process in a large firm. The third, Frank Knight, said that the essential tasks of the firm were the bearing and sharing of risk and uncertainty. These three economists actually showed how to represent the production unit of the economic system.

Different types of productive activities affect the management structure of organisations, and, in turn, the accounting role. The traditional meaning of fundamental economic functions demanded a lower level of analysis. The price system was concerned with how to recognise costs and calculate numbers. On the other hand, Chandler and Daems (1979) put the fundamental economic system in the context of the organisations. They inquired how organisations administer the co-ordination of the price system mechanism. Additionally, they argued that conventions among agencies stabilise the market price. These situations required a higher level of analysis of the management structure and organisations, not only in relation to the calculation and recording mechanism, but also in relation to the process before and after calculation and recording. The different demands on the level of analysis necessitated innovation in organisational analysis (Benson, 1977, p.11-12).

The different articulation of fundamental economic functions has affected the implementation of accounting in society. In the traditional meaning, the role of accounting in organisation was about calculating numbers (See Section 4.2.2). The aim of the calculation process was to fulfil an obligation of stewardship to other parties. Here, the notion is of the old stewardship of the accounting role (See Section 4.2.1). However, this calculation mechanism, is indirectly related to the social perspective of the accounting role.

In Chandler and Daems' (1990)'s interpretation, an elaboration of the accounting role in organisations is found. In the traditional meaning, accounting worked to administer the price mechanism. In Chandler and Daems' interpretation, accounting did that work in the organisational context. This gave rise to the idea that the co-ordinated administration of the price mechanism favoured the organisation's objective. This is how accounting contributes to the decision making process in the organisation. Additionally, in a second complement to the price system, the interagency arrangement conveys a notion of the stewardship role of accounting. As this factor is closely related to fundamental economic functions, the notion of the accounting role is based more on the new stewardship role. This means that the accounting role was established to monitor the allocation of economic resources (See Section 4.1). However, in line with the calculation mechanism, the interpretation of Chandler and Daems (1979) placed accounting in a social perspective, as a tool of communication.

4.3.2.4 Reinforcement or Indeed Creation of Particular Patterns of Power and Influence

This subsection is about the fourth factor mentioned by Burchell et al. (1980). This factor differs from the others. The belief behind Sections 4.3.2.1, 4.3.2.2 and 4.3.2.3 was that management use accounting as one of the business technologies. In this situation, accounting was in a position to be explored. This means that there are choices as to how to treat accounting in management's work. When management do business, they prefer accounting to be a recording tool, including analysis. Over time, management made a decision. They can now choose whether to use accounting or something else.

In the previous section, literature on how accounting functions in the organisation was explored; this subsection starts with Bariff and Galbraith (1978) who researched power and influence in competition between accountants and Management Information Systems (MIS) staffs. They assumed that organisations could be viewed as shifting political coalitions competing for organisational resources (ibid.,p.15). The finding of the research was that a successful resource acquisition is highly dependent upon politics. With this result, Bariff and Galbraith (1978) rejected rational-economic decision making as the most influential factor in the organisation, and suggested the existence of political practice in organisational decision making. They researched to what extent the distribution of power works as a political practice in the organisation. First, they suggested, the objective of an information system project actually minimises the effect of the current social structure. Second, the aim of a continuous information system modification affects the planning in the social structure. And, third, most of the information system modification enhances the relative power of the information system

group. It seems that Bariff and Galbraith implicitly assumed that the organisation is a social system. This is in line with Parsons(1960).

Considering the politics of organisational decision making, it can be concluded that Bariff and Galbraith (1978) redefined the organisation, as a set of purposeful systems and a set of choices of objectives and performance of tasks. This means that management had the capability of selecting and modifying objectives and the means of their accomplishment (ibid.,p.16). This conveyed the idea of how to implement power within organisational activities. An implementation of the concept of power can be classified into the power of individuals and the process of producing information. The ability of individuals to control information establishes their perceived power over other individuals. On the other hand, services provided by organisational sub-units affect their power in relation to other organisational sub-units. Both power phenomena dominated accounting practice in many organisations and corporate bodies.

In line with Bariff and Galbraith (1978), during the 1970s, many approaches were produced, such as political economy, strategic contingencies and resources dependence (Benson,1977,p.10), the examination of which extended the conventional boundaries of organisation. Within accepted social assumptions, the social paradigms, such as Marxism, Foucauldian and Critical Theory, became common in analysing organisational realities. These paradigms required attention to the processes through particular organisational patterns. It was necessary to pay attention to history, to the sequence of events and contexts through which the present arrangements have been manufactured (ibid.,p.8).

This increased interest in understanding organisational phenomena. In other words, the need for a perspective to see organisational phenomena became more important.

From the above discussion, the influence of perspectives and power in organisational analysis can be seen. Organisational analysis became more responsive to reality. In the organisational and inter-organisational perspectives, accounting functions in the decision-making role and the new stewardship role. From Section 4.3.2, most studies looked at accounting in relation to the discussion of the accounting role in the decision-making context of the organisation. They also considered the role in economic terms. There was an assumption is that organisation is a social system and actual consideration of the dynamics of that system, meaning that the probability is that accounting has influenced the social system. In a further exploration of this factor, the accounting role would be to constitute reality. However, in the 1970s, understanding of the accounting role in constituting reality was still limited to organisational phenomena. As mentioned by Bariff and Galbraith (1978), the information system designing process is useful in reinforcing and modifying management policies (ibid.,p.25).

An understanding of the factors outlined by Burchell et al. (1980) provides an insight into how to manage the functions of accounting in the organisation. However, two other influential theories must also be considered: Bell's Social Structure and Agency Theory. They are discussed below:

Bell's Social Structure

The previous subsection presented an analysis of the reasoning of Burchell et al. (1980), based on organisational development. In this subsection, another perspective is offered for the development of the accounting role. Gandhi (1976) adapted Bell's social structure as a tool to understand the intertwining of society's development and the development of accounting. He assumed accounting to be a message mechanism which creates a precondition to individual or collective behaviour (ibid.,p.34). The messages constitute a knowledge structure in the form of language, symbols and information. Gandhi concluded that this process was the way society adjusted to its larger ecological environment.

It seems that what Gandhi called a 'message mechanism' is a function of accounting as an information system. Gandhi implicitly assumed accounting to be an entity, sensitive to social norms and cultural values. Accounting has the capability to influence society and is also affected by societal development. Bell (1971) had described these phenomena in the context of post-industrial society, in which he recognised accounting as a developed form of technology and knowledge. This means that accounting was actually a part of society's development. Consequently, the factors that influence the development of post-industrial society also influence the development of accounting as a technology in that society.

The concept of post-industrial society is concerned with long-term changes in social structure. Bell (1971) explained the changes by pointing out the difference between pre-

industrial, industrial and post-industrial society. He classified the changes into factors that influence the development of society. The first of these is economy. Pre-industrial economic activities were primarily extractive of agriculture and mining. In industrial societies, the main economic activities were manufacturing, and in post-industrial society, economic activity is centred on service activities. The second factor is the occupational slope. Work in industrial society was dominated by unskilled workers, such as farmers and fishermen. In industrial societies, semi-skilled personnel, such as engineers, predominated. In post-industrial societies, the type of work is emphasised and the professional and technical classes, such as experts and technocrats have supremacy. The third factor is technology. In pre-industrial societies, people only used raw material in their work. In industrial societies, people started exploring energy as the main support of their work. In post-industrial societies, people have been able to develop self-sustaining technological growth. This development was due to the new devices for technological forecasting and the need to maintain productivity and expansion, so, at this stage, people developed information technology. The fourth factor is about the development of methodology. In pre-industrial society, people mainly learned from experience. They used 'common sense' to solve their problems. In industrial societies, people started formulating their experiences into an experimental framework. In post-industrial societies, people have succeeded in formulating their theoretical knowledge as a central source of modern innovation and policy-formation in the society. They already had the capability to abstract their experience into certain theoretical frameworks. The product of this methodological process was models, simulation, decision theory and system analysis. The fifth factor is about axial principles. In pre-industrial society,

people saw their environment in the traditional way such as the limitation of land and resources. In industrial society, people saw the development of their environment in terms of economic growth and industrial investment. In post-industrial society, people have created an 'intellectual technology' to explore their environment, as a result of a codification of theoretical knowledge.

Burchell et al. (1980) stated that the analysis of the post-industrial concept will give an understanding of how *accounting is introduced into more sectors of society (p.6)*. Related to this notion, Gandhi (1976) said that, in post - industrial society, the existence of accounting started from the accountability phenomenon. People in society developed the market economy mechanism which has served society well but is inadequate in an arena where public goods and services have increased so rapidly. Public goods and services here are indivisible, so, they must be provided collectively. This condition requires *a reorientation of accounting function (ibid.,p.40)*, because control as a basic issue in an integrated society concerns public goods and services.

In a market welfare economy, the distribution of public goods and services relies on the invisible hand mechanism (ibid.,p.41). This mechanism aggregates multiple choice for individuals and simultaneously distributes the responsibility for the aggregated collective decisions. If the mechanisms are public and real, it will guide society's resource allocation. However, the mechanism in practice sometimes deviates from perfect work standards. This condition has to be considered as the alternative system, the non-market welfare economy (ibid.). In this system, decisions concerning the acquisition and

allocation of public goods, services and resources are generally made through collective mechanisms, such as planning and arbitration.

Accounting developed during the growth of the non-market welfare economy. When a planning and arbitration mechanism was established, there was a need for a supporting mechanism to supply data for planning and for evaluation of the planning. In this case, accounting, as an information system, worked as a service economy activity. Accounting people developed themselves into a professional class in society, and because of the prestige attached to this class, requirements were set up to enter the accounting profession 'club'. These requirements concerned the capability of implementing 'intellectual technology' into accounting work. Their purpose was actually to declare the existence of a theoretical knowledge of accounting. This objective was important in promoting accounting into one of the central sources of modern innovation and policy formation of society. In other words, accounting established in the post-industrial society developed as a form of methodology and technology. This conclusion implies that, with a lack of environmental support, accounting could not develop in the pre-industrial and industrial stages of society.

Related to Section 4.2, in post-industrial society, the roles of accounting within in the organisational and financial economics perspectives are implemented. At this stage of societal development, accounting is implemented to solve the problem of resource allocation. This notion gave rise to decision making in the accounting role. On the other hand, since the implementation is within the context of public interest, accounting

became an accountability tool in the relationships between entities / individuals and society. In this sense, accounting acquired its new stewardship function.

Agency Theory

In previous subsections, the focus was on how the stage of organisation development and social structure influenced the development of the accounting role. In this subsection, the reasoning behind the development of the accounting role will be explored in terms of the contemporary approach, agency theory. The accounting role under agency theory is a combination of the old and new stewardship roles (Ronen,1979). (See Subsection of Agency Theory Influence under Section 4.2). This means that the development of the accounting role can be classified into development of the old stewardship and development from the old stewardship into the new stewardship roles.

In the first development, the establishment of the old stewardship function was closely related to the accountability of management. As an agent of the owners, management are responsible to safeguard and use the owners' resources, in such a way as to increase their value. This mechanism existed in conditions where management was separated from ownership. For Ronen (1979), this separation of management from ownership of the business entity was the primary factor that raised the stewardship function of the accounting role.

Regarding the second development, Ronen (1979,p.433) based his observations on business environments in some developed countries. His first finding from his

observations concerned increasing complexity of the business environment in developed countries. This finding demanded a re-orientation of the accounting role. In this case, the type of relationship was not only between entities, but also between entity and society. During the 1970s, society in the US asked business people to pay attention to environmental, ethical and other social issues. Since society represented the customers, management could not neglect this request, and began to concern itself with social responsibility. Management took their contribution to social welfare into account in corporate planning. In other words, management shifted their main interest from increasing the companies' value to optimising the society's welfare.

The second factor concerned the extent of interdependencies between corporations in the US. This factor arose from the quality demanded of companies' product. Society, as customers, demanded high quality goods and services. However, the components of goods and services were products of other companies, which meant that the quality of goods and services was a result of cumulative quality production processes from many companies. To respond to this kind of condition, management developed the principle of serving society. This directed management towards society's interests.

The third factor concerned the increasing diffusion of ownership. With large numbers of owners in a company, agency costs affect a greater number of individuals in the economy. At the same time, the changing of the accounting policy in certain companies affects not only its stockholders, but also consumption and investment decisions in other companies. This phenomenon gave rise to the idea of an interdependency relationship

between internal and external management. In other words, management put a concern for social interests into their decision-making processes. So, management reduced agency costs, in order to increase the efficiency of resource allocation.

The fourth factor concerned the effect of advances in technology and communication. These advances have magnified the consciousness of the social impact of corporations and the need for information on such impact. This means that the social welfare argument was more likely to have been rooted in business environmental changes than in incentives to satisfy the demand for 'excuses'. In this case, the choice among productive alternatives can be affected by financial information. Further, financial information influences the efficiency of resource allocation in society.

This fourth factor in the development of the old to the new stewardship signifies the importance of the influence of changes in the business environment in optimising social objectives. Related to the whole study, changes in the business environment caused a shift from trend away from legal towards economic accountability, which means that the economic relationship was a major concern of the business relationship. In other words, the business orientation has a tendency to a notion of 'growth'.

From the above discussion, it can be seen that the factors influencing the development of the accounting role reflected the development of the accounting environment up to the 1970s. Changes in the environment, mainly in the organisation and business environment, influenced the development of the accounting role from the financial economic

perspective and from the organisational perspective. However, the influence on the accounting role from a social perspective was limited. This means that the focus of attention until the 1970s was still on the development of the organisation and the relationship between entities.

4.3.3 The 1990s

The world in the 1990s is very different from that of the 1970s and 1980s. Business changes very fast, technological growth is everywhere, the information network has become worldwide, and there is increasing interdependency between people, entities and countries. The world is experiencing a new era, globalisation.

In this era, Lehman (1992) claimed that accounting's influence extends across the range of our life experience, *from the mundane to the globally consequential (p.1)*. She emphasised the vast array of accounting data, encompassing such diverse activities as estimating the productivity of robots and planning playgrounds for inner city schools. However, she still questioned the awareness of accountants of the social implications of the data. Most accountants are unfamiliar with critical thinking and lacking in political and social discrimination (ibid.,p.2). Based on this interpretation, Lehman (1992) tried to promote the importance of social analysis, especially social conflict, in accounting works.

In Lehman's view, the factors that currently influence the development of the accounting role are global debt, the cost of the international debt crisis, and boom and bust of mergers. Below, each of these factors is discussed in turn.

4.3.3.1 Global Debt to Pay

The global debt crisis was raised in the US Congress in 1986. The claims for bank failure and bailout ranged from \$60 billion to \$1.4 trillion, three times the US Federal Government's deficit. To make matters worse, \$1 trillion claim is from some developing countries, most of them Latin American. Most of these countries face negative or minimal growth, rising fiscal deficits and tremendous cuts in social programme. Since a majority of global loans are now owed to private commercial banks, default by any one or combination of these developing countries will lead to bankruptcy of the US money centre banks.

The background of this global debt is still a matter for debate. Lehman (1992) highlighted the role of banking accounting practices and misuse of debt. The banking accounting practices can be classified into disclosure practice and recognition of the loan assets. With regard to disclosure practice, many banks in the US were reluctant to disclose their debt. In many cases, banks did not want to write off debts, because their assets actually would not absorb them. Additionally, they tried to deny the deteriorating economic condition of the debtors. This practice has been in use for many years, so cumulative debt has become common in banking. However, the banks cannot continue this practice, if their debtors are governments from developing countries, which have built debt. They should declare that they are in a nearly bankrupt condition.

The second banking practice highlighted by Lehman is about recognition of loan assets. Banks have not been consistent in implementing the Lower of Cost or Market Rule

(LCOM). In practice, they have consistently ignored the spirit of LCOM and treated the exchange rates differently for different countries; for instance, in November 1987, five cents per dollar for Peruvian debt, thirty-five cents for Argentinean and thirty nine cents for Brazilian. Banks actually rated the exchange rate based on risk premiums for each country.^{xxiii}

The misuse of debt was common in banking practices. The reality in 1980 brought a shift from the old assumption that all debtor countries should be treated alike. The case of Marcos (Philippines) and Duvalier (Haiti) taught the banking community that these countries misused their debts for private consumption (ibid.,p.6). So, banking should investigate the 'real' value of the loan and the credit-worthiness of the debtor.

The global debt phenomenon has led to difference in accounting treatment. In this respect, the accounting role functions as a communicating role and constitutes reality. The global debt events became an example of how accounting constitutes reality. It can be concluded that globalisation has had a positive impact on accounting.

4.3.3.2 Cost of the International Debt Crisis

The change in US economic conditions has been recognised as an important factor in the world economy. The global debt created a sequence of negative impacts on the economy. 400,000 jobs were lost as a result of declining merchandise exports to Latin America, the poor and the working class failed to increase their standards of living, violence in some

developing countries increased, and finally, the democratic process has fallen behind. Global debt has caused an international debt crisis.

The international debt crisis became more complicated by the economic and political situation of developing countries. This situation was a result of the impact of the fundamental problem of transnational relationships^{xxiv}, that of the fundamental disparity between rich and poor nations. People have debated the problems of the international debt. Some experts say that the international debt crisis reflects how developing countries' debts boomerang on developed countries (George,1992). Financial assistance from developed countries was ostensibly provided to aid development programmes in the developing countries. However, the fact is that the public in the developed countries transferred their funds as disguised subsidies to commercial banks. Other experts say that the international debt crisis is the result of 'tricky' requirements from developed countries (Sjahrir,1994,p.312-314), in that, in the credit agreements, the creditor restricted the purchase of technology, goods and services to developed countries. Such agreements caused an outflow of capital resources from developing to developed countries. The international debt crisis exists because of the cumulative real debt in the creditor countries. In other words, the international debt crisis is a problem for developed countries, not developing ones.

In the above discussion, it was shown that accounting has had a tendency to communicate reality. Accounting, as an information system, should tell the 'truth'. If it is necessary, accounting discloses the history of the information to users. An implementation of the

conservatism principle in accounting for assets, loans and other accounts would also inform banking and governments about the financial conditions of companies, governments and other international monetary institutions. Here, accounting, in order to create better conditions, functions to communicate reality and, also, constitutes reality.

4.3.3.3 Boom and Bust of Mergers

In the 1980s, US business experienced 'merger mania'. Benston (1980,p.7) explained the popularity of mergers as follows: (1) accounting procedures misled investors, thus motivating promoters and managers to effect mergers; (2) growth and changes in enterprises brought these enterprises to a stage in their development at which mergers were rational; and, (3) mergers were attractive investments for acquiring companies, owing to the economic condition and tax climate. He stated that merger practices made capital markets efficient. Mergers also meant the growth of companies.

The impact of mergers was not all positive, however, during the merger mania of the 1980s, negative impacts of mergers were felt (Lehman,1992,p.8). The practice of junk bonds as a main financial resource put mergers into difficult situations. The starting point of the junk bond phenomenon was about how management bought the other company's bonds, in order to merge their companies. When management bought those bonds, they were concerned with the price of the bond. However, there are obligations related to any financial claims. Thus, management acquired not only the bonds, but also the claims and debts associated with them. In these situations, the merger often caused bankruptcy.

The junk bond phenomenon is an example of how business people innovated opportunities around accounting procedures, especially disclosures. Accounting procedures required disclosure of any event that may effect decisions relating to financial reporting. Accountants faced difficulties when they found prospects of claims to be unclear. Accountants could not disclose these claims in the financial reporting.

The practice of junk bonds was really a negative feature in merger mania trends in the 1980s. A lot of companies suffered a loss (Fortune, May 20,1991). Many accounting firms were involved in litigation relating to audit reports concerning the financial performance of previous mergers. The only people who received any benefits from the junk bond practice were the bidders (Lehman, 1992, p.9).

It is clear that the boom and bust merger phenomenon gave rise to an emphasis on accounting's ability to constitute reality, reality here being the junk bond practice, litigation culture and other areas. This means that in modern society, the accounting culture of the 1990s has become more solid. Accounting became not only a tool to analyse business, but also a framework to run business, for instance: to investigate undisclosed information in the case of merger, especially related to junk bond practice.

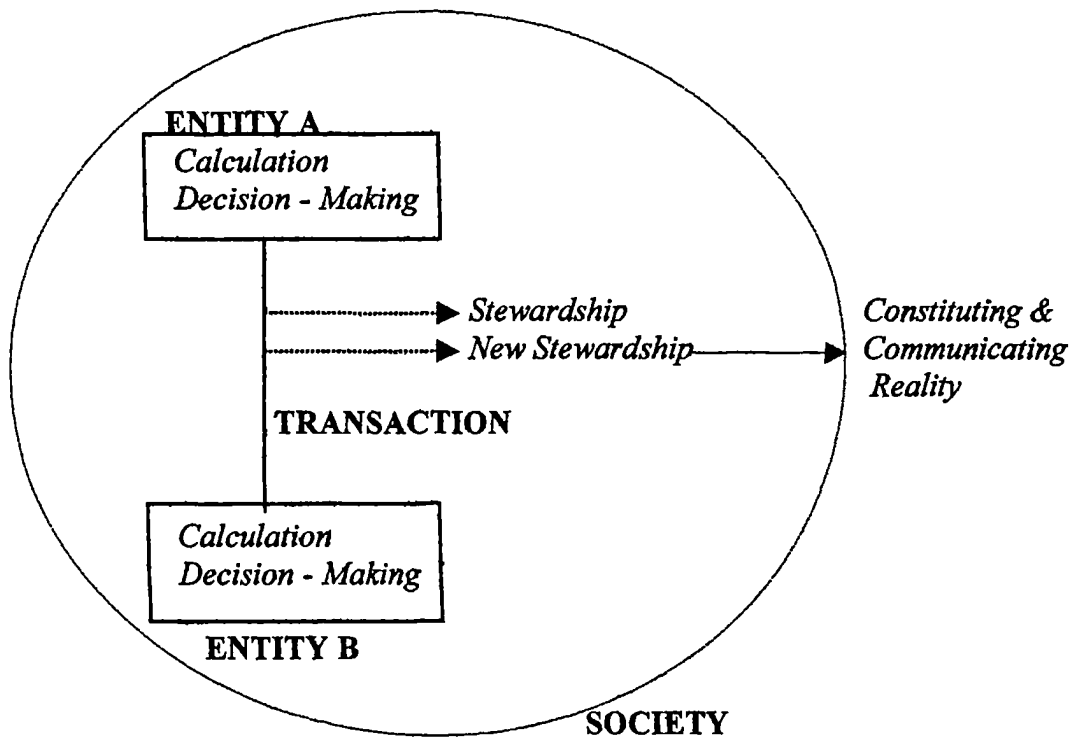
An analysis of the accounting role up to the 1990s has emphasised the social perspective. The globalisation era has brought accounting closer to the social perspective. In other words, accounting has become more closely aligned to the culture of society. It has been

seen that the influential factors in the 1990s have so far been U.S dominated, but it seems likely that similar trends will spread to other countries in different forms.

4.4 Discussion

The discussion has developed a categorisation of the various perspectives adopted towards the role of accounting and the factors that influence the changing of perspectives. In this section, all these ideas will be synthesised into an integrated image of the accounting role.

Figure 4.6
The Meaning of the Role of Accounting



In the figure above, an attempt is made to present a picture of the relationships among all the perspectives concerned with the role of accounting. In the financial economic perspective, the accounting role exists based upon a contract between entities in a society.

The mechanism of the contract is a mechanism of accountability. The types of accountability, here, can be classified into accountability between entities, and, accountability between entities and society. The first type is the accounting role in the stewardship concept, and the second is the accounting role in the new stewardship concept. In the 'nature of the accounting' perspective, the accounting role exists based upon the work inside the organisation. In other words, the accounting role in calculation and in decision making is inherent in management. In the business entity, the focus of attention and the need of the management is to obtain numbers concerning profit, wealth and, perhaps, debt. This condition represents the early development of management, where individuals have only a short term orientation, few production relationships and simple trading. In that stage, the notion of an accounting role relates to a simple responsibility process. As business grows, developing more complex and various types of relationships, accounting begins to play a role in the decision making of an entity. These two roles are not, however, distinct and mutually exclusive, but rather, two dimensions of a cumulative role. This means that the establishment of an accounting role in decision-making never eliminated the accounting role in calculation. Further, the innovation of technology in a company or business had the tendency of strengthening these accounting roles in an organisation.

The third perspective, the social perspective on the accounting role, developed as the demand for social needs increased. Society is the focus of this perspective. The impact of accounting work has affected society's development. In this sense, accounting has a role in constituting reality. This role confers a social responsibility to communicate

reality to the members of the society. Below, the discussion will develop a connection between the reclassification of accounting role and its factors.

Figure 4.7
The Role of Accounting and Its Factors
A Review

The Role of Accounting Factors	Financial Economic Perspective		Organisation Perspective		Social Perspective	
	Old Stewardship	New Stewardship	Calculation	Decision Making	Communication	Constitutive
1930s						
• Stewardship crisis	*	*				
• Growth of social consciousness	*	*				
1970s						
• Management of financial resources			*	*		
• Organisational visibility			*	*	*	
• Forms of management structure and organisational segmentation			*	*	*	
• Power and influence			*	*	*	*(limited)
• Economic development		*		*		
• Occupational slope		*		*		
• Technology progress		*		*		
• Methodology progress		*		*		
• Principle development		*		*		
• Separation of ownership from management	*					
• Rising complexity of the business environment	*	*				
• Extent of interdependencies among corporations	*	*				
• Increasing in the diffusion of ownership	*	*				
• Advanced of technology and communication	*	*				
1990s						
• Global debt to pay					*	*
• cost of the international debt crises					*	*
• boom and bust of mergers					*	*

In the 1930s, social phenomena greatly influenced the perception of the accounting role. The stewardship crisis and the growth of social consciousness became the motivation for the shifting of the accounting role from the old stewardship to the new stewardship functions. This shift was a result of a change in society's perception about the use of accounting in societies. In other words, consciousness of existence of the accounting was raised. In the 1970s, the development of science and knowledge influenced how people saw the development of the accounting role. The changes in environment were analysed by implementing an abstraction process. Changes in business attitudes, organisation and environment were observed. Then, through a process of abstraction, those phenomena were categorised into factors that influenced the development of the accounting role. Burchell et al. (1980) summarised the changes in organisational behaviour, form and structure as the organisational factors that influence the development of the accounting role. Gandhi (1976) implemented Bell's Post-industrial Concept to identify the influence of social structure related factors in the development of the accounting role. Ronen (1979) observed a change in the business environment. He implemented an agency approach in order to infer the factors in the business environment affecting development of the accounting role. In the 1990s, the globalisation trend has influenced people's perception about their environment. People think globally, so they see business events in the context of global events. Related to business, three events in particular have influenced the development of the accounting role: global debt, the international debt crisis, and mergers.

From figure 4.7, we found that the analysis of the development of the accounting role has a tendency to move closely towards the social perspective. In the 1930s, the function of accounting was accountability. In the 1970s, the perception changed as to how accounting worked in organisational activities, though the analyses of Burchell et al. (1980), Gandhi (1976) and Ronen (1979) were still restricted by the assumption that accounting was part of the organisational elements. Even though Burchell et al. (1980) tried to promote the power and influence factors, we suspect that the implementation was still restricted by the organisational boundary. This means that most of the studies based upon factors prevailing in the 1970s will show how accounting works as a decision making tool and how this affects people inside organisations. In the 1990s, this limitation has been overcome by thinking globally. Global events are seen as factors that influence the development of the accounting role. As a result, in the 1990s, the accounting role is viewed more as being to constitute reality rather than only to communicate reality.

There was a tendency in the literature concerning the development of the accounting role to raise the question: how are the financial economic perspective and organisational perspective going to be in the future?. This question is an attempt to see the future of the legal-economic aspect of accounting and accounting as a technology. The key phrase needed to answer this question is 'a reorientation of accounting's functions.' The integration of the old and new stewardship concepts into the global context will produce the new features of the legal-economic concept. The relationship between entities has become complex, since such relationships can be between regions and countries. On the

other hand, the social welfare definition has shifted to a broader area. The public is no longer limited to a certain region or country, but has become global. From the organisation perspective, the exploration of technology for decision making will act globally through the internet and other global communication facilities. It can be concluded that the financial economic, organisational and social perspectives will survive if they always adapt to the contemporary context.

Our discussion has indicated the notion of accountability (responsibility) in the accounting role. "Accounting people" are responsible for accounting practice. In other words, the notion of accountability is for accounting practices. From some perspectives, the accounting role was not necessarily seen as an interpretation of accounting practices (Burchell,1980,p.10). However, the roles could emerge at a distance from practice, often shaped by very different institutional contexts and bodies of thought, and serve as bases for changing practice. As a result, the direction of the accounting role in reaching its purpose on reflecting what accounting is and what accounting ought to be about can be maintained (ibid.).

A question now arises whether each perspective is applicable to every case. In none of the literature, reviewed for this study, was any attempt made to implement all perspectives in one case study or for one piece of research. Additionally, it is difficult to agree that these perspectives are relevant in sequence, which would mean that in certain cases of a relationship between entities, or at a certain social stage, the financial economics perspective was not applicable; or that in certain social cases, an

organisational perspective was not relevant; or that, on the other hand, a social perspective was suitable for all cases in organisations, between organisations, or at a given social stage. These dilemmas lead to an opening for research into the accounting role.

It was also interesting to discover that few of the accounting studies, from a social context, went into any depth when studying how people used accounting in general. Some of them developed a study of the accounting role in decision making. This implies that studies of accounting in its social context focused more on organisations, instead of the relationship between the organisation and the social stage. This provides an opportunity for studying how people in the industry have exercised these accounting role perspectives. People in industry represent a social stage. The production relationship in industry, clearly, is a relationship among entities. Finally, an investigation of an industry from all three accounting role perspectives simultaneously will constitute a break through in accounting case study literature.

4.5 Summary

1. The study of the role of accounting is a study about the meaning of the accounting role and factors that influence the development of the accounting role.
2. The aim of studying the accounting role is to reflect on what accounting is and what accounting ought to be.
3. The accounting role is one of the studies in the accounting policy area. Such study has succeeded in developing the accounting policy area by moving from a micro to a macro perspective, from organisational to society-oriented study, and from a single discipline to an inter - disciplinary study.
4. We can classify the accounting role perspectives into three categories:
 - The financial economic perspective which is about the accounting role in a contract among the entities and between the entities with a society.
 - The nature of accounting perspective, which is concerned with the accounting role in an organisation. It is a study of how accounting developed as a business mechanism, from simple calculation to a complex model of decision-making.

- The ~~social~~ perspective, which is concerned with how ~~accounting~~ can affect a society and be the result of ~~change~~ in society.
5. The ~~rationale~~ for studying the factors that Influence the development of the accounting role is to manage the ~~changes~~ in the accounting role.
 6. The factors that influence the development of the ~~accounting~~ role can be classified into three periods: 1930s, 1970s and 1990s.
 7. In the 1930s period, the stewardship crisis period and the growth of social consciousness caused a shift from the old stewardship role to the new stewardship role of accounting.
 8. In the 1970s, there were three perspectives to view the development of the accounting role:
 - *The Organisational Development*

Within the organisational development perspective, the influential factors were the management of financial resources, the creation of organisational

visibility patterns, the creation of forms of management structure and organisational segmentation, and, the power and influence inside organisational activities.

- *The Social Structure*

Within the social structure perspective, the post - industrial concept recognised economic development, occupational slope, technological progress, methodological progress and principle development as factors that influenced the development of the accounting role.

- *The Agency Theory*

Within the agency theory perspective, the influential factors were the separation of ownership from management, the rising complexity of the business environment, the extent of the interdependencies among corporations, the increase in the diffusion of ownership, and the advance of technology and communication

9. In the 1990s, globalisation has influenced the development of the accounting role in the form of the global debt to pay, the cost of the international debt crisis and the boom and bust of mergers.

10. Capability to adapt to the modern context will determine the establishment of accounting role perspectives in the future.

Endnotes

ⁱ Belkaoui (1992) took the classification from *The Handbook of Accounting*, (Fifth Edition) (New York: The Roland Press, 1970)

ⁱⁱ Littleton (1981,p.361) expressed this situation thus :

Accounting is relative and progressive. The phenomena which form its subject matter are constantly changing

ⁱⁱⁱ Relevant, in the Franklin Computer Language, means 'relation to the matter at hand' or, in the thesaurus, 'relating to or bearing upon the matter in hand'

^{iv} Foucault posed the question:

Are you going to change yet, again, shift your position according to the questions that are put to you ...

(Michel Foucault ,1972,p.17, translated by A.M. Sheridan Smith)

He reflected on how society was able to respond differently at different times

^v Paton (1962) discussed accounting as

A further point of view from which the subject might be defined is the social
(p.6)

Further, he raised a question

What is the function of accounting from the standpoint of the community of the entire industrial situation (p.7)

^{vi} The American Accounting Association, 1966, had initially created an impression that accounting theory is similar to the role of accounting by saying:

... basic accounting theory as a foundation for a body of sound accounting principles governing the treatment of accounting information (p.97)

^{vii} We consider that most textbook treatments of accounting policy discuss a '... set of accounting methods ...' (Bloom,1995,p.380)

^{viii} See Opinion 22 of the APB ' Disclosure of Accounting Policies' (April 1972), paragraph 6

^{ix} Hopwood (1987) talked about the forecasting capability thus:

... modify the possibilities for the organisational present and its future (p.230)

Jesse Dillard (1991,p.25) encouraged the use of forecasting, saying:

... we can no longer be satisfied with only interpreting the world, we must become an active catalyst for change

^x The World Bank required the establishment of a simple mechanism for revising pricing policies and tariffs, in order to get a higher production efficiency, greater service access, quality and responsiveness and choice (Wellenius and Other,1992,p.6)

^{xi} The political action, here, is actually an action to govern:

through the regulated choices of individual citizens (Rose, Nikolai,1996,p.37)

^{xii} This attitude is an example of a Foucauldian case. It is a reflection from Hunter, Ian, 1996, p.155:

government ... unites the application of knowledge and the exercise of power ... in definite technical problematization and intervention

^{xiii} The main issue in the medieval period was freedom of thought. People felt to be against the Church's domination.

^{xiv} In the medieval period, The Manor (landlord) and the Government created a collusion to control society. This situation lead to the manors gaining authority and control over their properties.

^{xv} The neo - classical model has been criticised, because of:

- a. its assumptions concerning the market place
- b. the generalisation of individual preferences to collective preferences
- c. the separation of social and economic spheres for analysis

^{xvi} Chatfield (1974,p.32) mentioned that

... double entry bookkeeping came into being with the rise of Mediterranean commerce during and just after the crusades (1096 - 1291)

^{xvii} *ibid.*

^{xxiii} We do not mean the shift from a non-analytical position to an analytical position, but from a simple analysis to a complex one. As a note, Littleton (1981,p.41) mentioned the existence of transaction analysis practice in 1436.

^{xix} AAA (1966,p.3) argued two points of view over accounting information:

... primarily a need for information useful in economizing

... the latter is understood to refer to the use of all kinds of limited resources

The first relates to acceptability ,and the second to accessibility.

^{xx} Laughlin and Power,1992,p.118 raised a possibility framework for the role of accounting in a decision making. See in p.50

^{xxi} See also Hopwood (1983) 'On Trying To Study Accounting In The Contexts In Which It Operates'

^{xxii} The criticism of accountants was unfair, because several years earlier the AIA (the predecessor of the AICPA) had attempted ineffectively to draw the New York Stock Exchange (NYSE) into conversation. Also, the NYSE itself had been relatively loose in its listing requirements.

^{xxiii} Risk Premium is a rate to measure the capability of the debtors to repay their debt.

^{xxiv} The transnational relationship is recognised as a North - South relationship. North, here, represents the industrial (developed) countries. South represents third world (developing) countries.

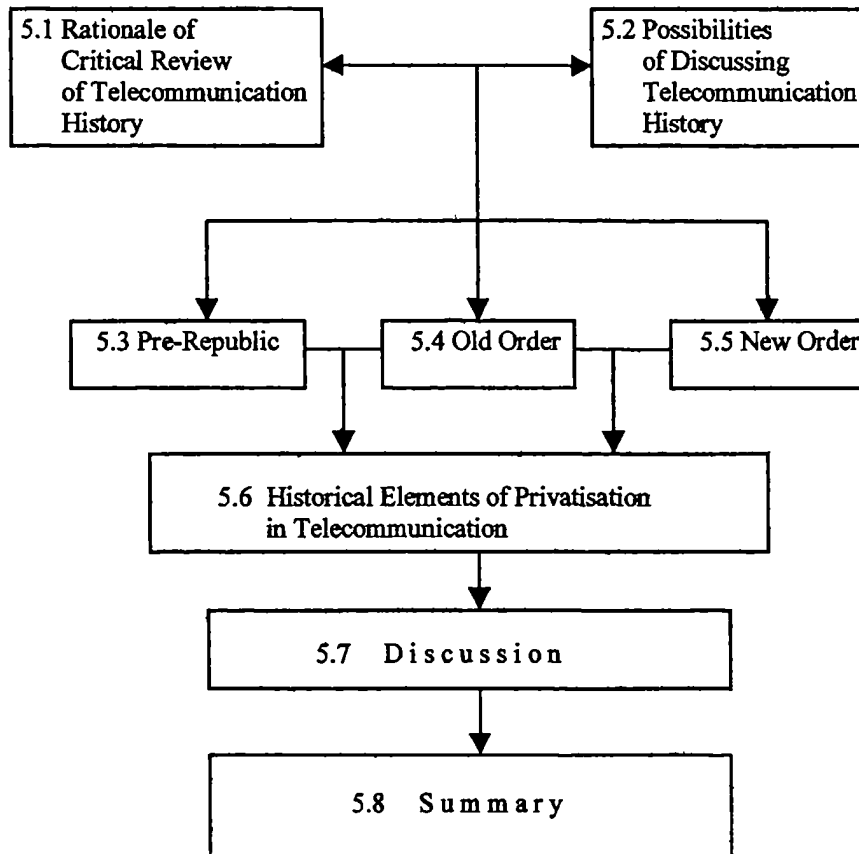
CHAPTER FIVE A CRITICAL REVIEW OF THE HISTORY OF INDONESIAN TELECOMUNICATION INDUSTRY

5.0 Introduction

Chapters Four has discussed the role of accounting and related factors, showing that accounting cannot be separated from its environment. It is therefore necessary to deliver a specific discussion about Indonesian telecommunications as the industrial context of the present study. The aim of this chapter is to clarify the role of accounting in the telecommunication industry and to explore privatisation in the telecommunication context.

Figure 5.1 below, illustrates the flow of ideas in this chapter.

Figure 5.1
Structure of Chapter Five



This chapter will begin by providing a rationale for the critical review of telecommunication history (Section 5.1). This discussion will be followed by an exploration of some possible ways to discuss telecommunication history (Section 5.2). In this study, the political period approach is selected. Accordingly, the history of the telecommunication industry is presented in relation to three periods: the Pre Republic Era (Section 5.3), the Old Order (Section 5.4), and the New Order (Section 5.5). Those descriptions will identify some important elements of privatisation in telecommunication.

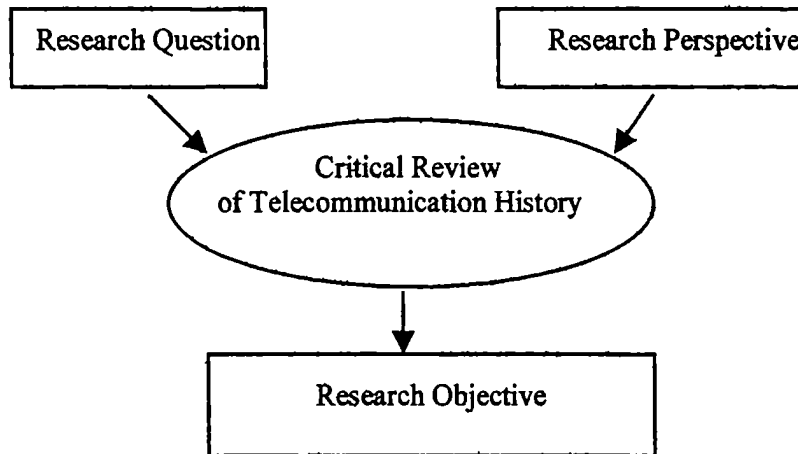
The identified elements (Section 5.6) will be explored as reasoning to legitimate an aim of this chapter (Section 5.7). The sequence of ideas in this chapter will be summarised in Section 5.8.

5.1 Rationale for a Critical Review of Telecommunication History

The findings of this study will inevitably be shaped by the study context, the Indonesian telecommunication industry. The aim of this section is to explain the need for a review of the industry. It is reasonable to ask why a critical review is needed, since there are other types of review, such as descriptive, summary or interpretive, which could have been adopted.

The type of review must be one which supports the objectives of the study, and is in line with other chapters, such as those discussing the methodology and theoretical framework. This means that mere description of the telecommunication industry is not enough. An exploration of the industry should take a position toward the topic of study and its perspective. For this reason a critical review, rather than descriptive, summary or interpretive review, is more appropriate.

Figure 5.2
Rationale of the Critical Review



As the figure above indicates, to be critical, the review should consider the research question, research perspective and research objective. By exploring these three items, this chapter will be tied to the whole study.

The relationship of the research question to the review takes in many forms. First, the review will help to answer the study's question. Second, the review identifies other necessary elements. In this case, history will show an interaction between accounting and other industrial elements. Third, the review promotes some ways to analyse the telecommunication industry from documents or notes. Past experience in analysing the telecommunication industry can be drawn on, in order to promote a better analysis.

A second concern is the research perspective, i.e. the attempt to deliver a political

economy perspective on telecommunication history. This means that in presenting the development of telecommunication, it is necessary to explore financial reporting and regulation documents as facts of history. Besides that, many documents which can be interpreted as products the political economic process, can be included as supplementary sources.

A third concern is the research objective. This final concern is the cumulative result of answering research question and implementing the research perspective. If the other concerns are fulfilled, most probably the research objective can be achieved. However, a misconception of the first two concerns is still possible, the third concern needs to be stated. The character of the review would be changed if it departed from the research objective. First, the review would have no direction; there would be no sequence of ideas from one section to another. Second, the review is would be descriptive, rather than critical. Finally, there would be no clear criteria for selection of relevant information.

Taking into account the three concerns above, the critical review should be different from a descriptive review. It is not just a matter of selecting relevant data. In a critical review, the relevant data should be examined for validity, reliability and utility. Validity is about sources of information. If the sources of information are first hand, they will be more valid. Reliability is about how the information is obtained. Printed data will be more reliable than oral information. Utility is actually about the functions of data. In this review, the data should be related to regulation and financial reporting. The closer the data to both forms of political economy product, the more useful they are.

The next step after collecting data is summary which, in this study, can be divided into tabulation of financial reporting data and a causal relationship for regulation. From tabulation, a complete picture of financial and organisational developments can be obtained for the period in question, while from regulations, government policy for the industry can be explored. Additional data from supporting documents will supplement the picture.

The discussion in this section has prepared the ground for the discussion to follow. All that remains is to select an appropriate method of presentation for the selected data. Since this is a big issue in social science and a crucial point in historical presentation, the following section will be devoted to consideration of possible ways of discussing Telecommunication History.

5.2 Possible Ways of Discussing Telecommunication History

A method of presentation can be defined as a way to convince the reader. History can be presented in many alternative ways, e.g. in terms of time periods, events or actors. In the periodic approach, history is classified into stages. For example, the story of a man from birth through childhood and adolescence to adulthood could be divided into the baby period, boy period, teenager period and man period. The advantage of this method is that it is easy for readers to follow the story; the classification line is clear; and, the characters for each period are easily determined. However, there are some disadvantages, e.g. important events are sometimes not detected; important actors are not made clear; and

each period is treated as a separate box. Despite these disadvantages, most historical articles prefer to use a periodical approach as the easiest method.

Another way of classifying history is in terms of key events, for example: the colonial era, the independence era and the modern era, representing events concerned with repression, struggle and welfare. This classification gives primacy to the character of each event. Time intervals are not consistent, since individual events are more significant than periods of time. The advantages of this method are that it emphasizes the meaning of history; the character of each event determines the quality of presentation; and classification is more flexible. On the other hand, the disadvantages are that the classification line is unclear, as are the important actors; and the selection of key events is open to debate.

The last method of presentation focuses on personalities who have shaped history, e.g. analysing the roles of President Kennedy, President Carter and President Reagan in American history. People who influence history can be regarded as actors of history, so that focus on them brings also a focus on events, as well as providing a convenient framework for presentation. On the other hand, the disadvantages are unclear line of classification; unclear period of time; and unclear comparison between different actors. This method is not popular, since the degree of difficulty of data collection and analysis is quite high.

Our understanding of these three methods offers several possible of presenting The

Critical Review of Telecommunication History. Besides the advantages and disadvantages of each method, our concern is with the nature of the relevant data. Since the research perspective is political economy, the collected data tend to be political and economic in nature. Most historical analysis tends to present political information from a periodic standpoint, as a way to classify the stages of history. This approach is appropriate in the present case because, since telecommunication is a public industry, decisions and developments in the industry cannot be separated from the political situation. Taking this into account, the study will take the periods of Indonesian politics as a framework for classifying telecommunication history. These periods are Pre-Republic, Old Order and New Order. The Pre-Republic section covers a long period before 1945, including Pre-historic times, the Ancient Kingdom and Colonialism. The Old Order section includes the war of independence, liberal democracy and guided democracy periods. Finally, the New Order section covers the period from 1967 to the present.

This classification is in line with organisational developments, since the policy makers responsible for industrial and organisational change are the government, controlled by the majority political party. This approach enables us to focus on the role of accounting which is developed from the organisational mechanism.

Within this approach any factors that influence the development of the role of accounting can be considered relevant to this chapter. Based on a review of the literature, some important factors can be summarised below:

Table 5.1
Factors Affecting the Role of Accounting
in the Indonesian Telecommunication Industry

1. Form:	What was the product of the accounting process?
2. Procedure:	What was the accounting procedure or method?
3. Function:	What was the function of accounting in management?
4. Problem:	What was the most crucial problem of accounting?
5. Authority:	Who had the authority to decide accounting policy or regulation?
6. Institution:	What institution did accounting work in?
7. Phenomena:	What was the outstanding event of accounting?
8. Impact:	What was the result of phenomena?
9. Valuation:	What was the valuation method?
10. Field:	What was the accounting field that predominated or and developed most in that period?
11. Feature:	What features characterised accounting in that period?
12. Internal change:	What significant accounting change occurred within that period?
13. External factors:	What were the external factors that influenced the accounting role?
14. Focus:	What was the focus in accounting work?

Information on these factors is found in documents, interviews and literature. Since the same factors are relevant in each stage of history, the history of telecommunication can be critically reviewed through them.

5.3 Pre - Republic

This section will explore the accounting context in the ancient kingdom and colonial era. These periods have in common the struggle against colonialism, which impacted on telecommunication developments. During the ancient kingdom, telecommunication developed in kingdoms most of which were at war against Western colonialism. The struggle to repair sovereignty was continued by people in the colonial era. In this period,

telecommunication developed to serve an authority, which had minimal concern for the people's welfare.

5.3.1 Ancient Kingdom

Preliminary

Most academicians agree that the history of telecommunication can be traced back to the ancient kingdom, when officials were engaged as couriers, responsible for delivering letters and messages. These activities served important functions in the kingdom and community, and gradually expanded.

No data sources indicates exactly when the first couriers existed in the Kingdom.ⁱ The earliest documentary evidence is a mark in the Prambanan Temple,ⁱⁱ which mark implies that people exercised *sangkakala* to disseminate messages in emergency situations. This means that 1)people utilised equipment to communicate, and 2)people communicated over distance.

According to some accounts, people introduced several techniques of telecommunication.ⁱⁱⁱ In Bali, up to the present time, every village has its *kulkul* (Balinese *tong-tong*) with its own distinctive sound, which can be used as a medium to send messages over distance. In the bronze age, the *bende*, the *mungmung* and the *gong*, instruments played in the *gamelan*, were used to summon everybody in the area to gatherings at the king's palace.

In this period, telecommunication was not regarded as a commodity,^{iv} but as a public good. Everybody had access to these telecommunication facilities, at no cost, and the benefits of telecommunication were circulated without any restrictions or requirements.

The following highlight two archetypes of telecommunication usage. The Sriwijaya kingdom was a great old kingdom on the island of Sumatra. The king / queen employed couriers to deliver his / her messages. These were three types of courier: regular, family, and official. The regular couriers were officers who delivered the ruler's messages to the public. Most probably, these messages were about common matters and for social purposes. The family couriers were the officers who handed messages to members of the ruler's family, household and court. Such information was usually related to family and official matters. Family couriers were usually attached to a particular member of the royal household. The last type of courier was the official one. These officers transferred the king's decisions and policies to other officers, individual common people and other kingdoms.

The second archetype is from the Majapahit kingdom in Java. These couriers played a significant role in political matters. In this period, the oath of the Gadjah Mada, an army commander, put politics and the military as leading areas. The oath stated:

Lamun huwus kalah Nusantara isun amukti palapa
(translated: *I will not rest until integration and unity of the Indonesian Archipelago have been achieved*)
(Directorate General of Post and Telecommunications,
History of Post and Telecommunications in Indonesia,
1982, p.39)

Political and military requirements brought couriers into positions of international diplomacy. They delivered messages and gifts to other kingdoms, using ships for transportation. The introduction of the ship courier can be seen as the start of international telecommunication. The frequency of communication among kingdoms affected the nature of their relationships. The book, *Negara Kertagama*¹, uses the designation *mitroka satata* (friend forever) to refer to some countries that had a very close relationship to Majapahit, meaning regular trading activities and diplomatic exchanges between kingdoms. Thus, it can be seen that officials kept records of international diplomacy.

Accounting Practice in the Ancient Kingdom

Up to now, academicians have traced the history of accounting in Indonesia back to the era of colonisation only. The reason is

from an examination of early years of the VOC (Veregnide Oostindische) in Indonesia, in the beginning of the seventeenth century, some clues can be gained as to the rise of accounting in terms of double - entry bookkeeping. (Sukoharsono, Gaffikin, 1993, The Genesis of Accounting in Indonesia: The Dutch Colonialism in the Early 17th century , The Indonesian Journal of Accounting and Business Society, p.5)

However, some archaeologists have exposed evidence of earlier accounting practices related to a telecommunication. They mentioned *upeti* practices.^v *Upeti* was an annual tribute paid by kingdom officers or rulers of other, smaller kingdoms to the king / queen. According to ancient documents, the heads of each village (*desa*) or town (*kabupaten*)

¹ *Negara Kertagama* was an old book which is written in the Majapahit period. The book described a story and development of the kingdom

reported their production and prosperity every year. At the same time, they brought *upeti* for the king / queen. *Upeti* was used as a way to control the loyalty of the region's officials and that of subordinate kingdoms. If the *upeti* was less than in the previous year, the officials had to explain why and promise to work harder for the coming year. These phenomena indicate that: 1) the officials kept production and welfare records, and 2) the record covered three or more years.

Accounting records included the production record, the record of the kingdom's wealth and the inventory of army weapons. They were governed by the kingdom's interest. There is no evidence of standard accounting methods for assessing *upeti*. Everything connected to the *upeti* was determined by the king's policies; the king assessed the value of *upeti* according to his own judgement. Some archaeologists believe that the strength of the relationship between the kingdom and the region or other kingdoms concerned, determined the level at which the tribute was set, and the way it was counted, e.g. whether it should be by weight or equivalent in precious metal.^{vi}

Measurement Problem

Related to telecommunication matters, accounting problems occurred in relation to the consistency and accuracy of the *upeti*'s valuation. As mentioned above, the king first set the value of the *upeti*. Some officers counted the value of the *upeti* and reported, but the king had the final word on all matters pertaining to the officers, the kingdom and the *upeti*.^{vii} From these practices, we can infer, first, that accounting was useful for decision making, and second, that the personality and knowledge of the king influenced the

accounting method tremendously. Although accounting faced the problem of lack of consistency and uniformity in accounting method, there were benefits, such as the avoidance of dispute, and variety of accounting methods. Those benefits, especially lack of opportunity for argument, led to lack of attention to the existence of accounting during this period.

The growth of trading and interaction with foreign merchants stimulated special arrangements for accounting. Hayam Wuruk, the fourth king of Majapahit, set up a new institution for welfare accounting, the post of *bendahara* / *bendahari*.^{viii} His / her duty was to maintain a flow of supplies to meet the needs of the government and army. The *bendahara* was obliged to maintain a record of the kingdom's gold pieces, and to take a personal inventory of the army's weapon and equipment. The new spirit of accounting was just beginning. Summary notes were in common use. Consistency in valuation method was increasing. Besides that, *upeti* accounting became less important as political considerations began to play a greater part in the king's policies.

The establishment of independent institution provided opportunities to develop expertise in *upeti* appraisal and accounting records, as well as commercialisation of the telecommunication process. The closer the relationship between kingdoms, the greater the value of the *upeti*; and, on the other hand, the greater the number of telecommunication activities. However, political intervention was still dominant.

Failure of Diplomacy: 'Upeti' Case

The aim of this subsection is to describe an outstanding accounting issue in the area of communication during the ancient kingdom period. The issue concerns communication between Majapahit and Padjajaran Kingdom, the two greatest kingdoms in Java. The Gadjah Mada, or military commander, had proposed a marriage between Hayam Wuruk, a king of Majapahit, and Diah Pitaloka, a princess of Padjajaran. He considered the political and communication implications. By such a marriage, the Majapahit would be assured of the friendship and understanding of Padjajaran. The cost of communication would be reduced to a necessary minimum.

However, political intervention disrupted the proposal. Many of the Gadjah Mada's colleagues were envious of his military success, and disrupted the marriage procession. Diah Pitaloka died in the riot. Relations between the two states were broken. The kingdoms became enemies. The Majapahit military increased their defence. The cost of the military increased. These situations increased the cost of communication.

These events show that bad communications are costly. Internal political conflict in Majapahit led to failure to conclude the marriage which was to have cemented and symbolised relations between and ultimately led to war.

5.3.2 Colonisation of Dutch Indies

Preliminary

In 1597, the first Dutch army came to the east coast of Java. The leader, General Cornelis de Hutman, to search the area around Banten and found massive valuable natural resources. The army returned to the Netherlands and reported its finding. Soon, the Dutch army arrived for the second time, this time planning to stay in Java. Their return had a considerable impact.

*In the following years, ten companies were formed to facilitate the need for trading speculation in the East. Competition among the Dutch traders who wished to visit the East was not long in coming.
(Sukoharsono, Eko G. and Gaffikin, Michael J.R., 1993, The Genesis of Accounting in Indonesia: The Dutch Colonialism in the Early 17th century, The Indonesian Journal of Accounting and Business Society, p.9)*

The history of colonisation began from that time.

To co-ordinate the trading and colonisation strategy, the Dutch (East) Indies government established the Verenigde Oost Indische Company (VOC) in 1602.^{ix} This trading company had large shares in government operations. Indeed, in reality, there was no a difference between the government and the VOC.^x The government gave the VOC authority to enter into agreements with native communities or kingdoms, moreover, the VOC had a monopoly on trade and so acquired trade goods very cheaply. The Dutch Indies government, under the name of VOC, took unfair advantage of native human resources and natural resources. However, the monopoly situation was not sufficient to establish a management performance. In fact, it created laziness and greed. Corruption and in-discipline were rife. Money and goods were stolen, and the black market

flourished.

In 1799, the government decided to abolish the VOC and take over its operations. This arrangement had a positive effect on the native people (*bumiputera*). The Dutch Indies was modernised. A lot of native people became involved in government and military work. These circumstances stimulated some new industries, such as mining, railway, food, transportation, telecommunication and manufacturing.^{xi} As an infrastructure industry, telecommunication was one of the first to develop.

Telegraph

The earliest record of the telegraph in the Dutch East Indies was in 1855.^{xii} The government decided to implement the new electromagnetic telegraph technology, and Naval Lieutenant Groll undertook a project for Batavia and Bogor's telecommunication system. The work was ready for government purposes on 23rd October 1856. The success of the initial installation work was followed up by another project to install a telegraph system in Surabaya through Semarang and Ambarawa branches. The installation was completed in 1857.

In the early telegraph industry, the type of service depended on the equipment. A morse duplex equipment was for important communication services only. Less important business services used a cardew vibrating sounder. The problem of maintenance of wires arose, caused by stolen wires and destroyed poles. This problem multiplied the cost of the system.

The first formal telecommunication regulation in the Dutch East Indies was introduced in 1858^{xiii} and revised in 1876. Its main aim was to create a monopoly right. Restrictions were placed on non-government companies opening and joining telegraph business. This regulation was derived from Dutch law, and reflected Dutch interests.

For tariff, purpose the industry policy classified consumers into four types: government, public, press and railway. The government had the same system of charges as the public. For places no further than 75 km away, the cost per word was 5 cents with a minimum tariff of 25 cents per telegram. For places more than 75 km away, the tariff was 10 cents per word with a minimum tariff of 50 cents per telegram.

For the press, telegrams within Indonesia were charged at one - fifth the cost of normal telegrams. Press telegrams had priority, in terms of delivery time.

The last classification of consumer was the railway. In 1883, a circular tariff system was applied for railway telegraph service. A similar system was applied for overseas telegrams. The telegram tariff for overseas telegrams sent from Java and Madura was lower (25 cents) than that for overseas telegrams sent from outside Java. The system was in operation up to 1915. After 1915, the overseas and railway telegram tariffs were reduced and, finally, uniform tariffs were introduced throughout the Dutch Indies.

Concerning equipment, in 1859, the Dutch East Indies had the modest telecommunication

technology of the nineteenth century.^{xiv} A submarine cable between Jakarta - Muntok and Singapura was installed. In 1870, by agreement between British - Australia and Dutch Indies, the cable was extended to link Jakarta to Singapore and Australia, hence linking the Dutch Indies telegraph systems to the international telegraph network.

The 1870 agreement had tremendous impact on the Dutch Indies' telecommunication industry.^{xv} The government became a member of the International Telegraph Agreement. Moreover, the Dutch Indies had to follow international standards in telecommunication, especially with regard to equipment, frequency and other related things. During the 1900s, Siemens was the supplier for 75% of the telecommunication equipment in the world. The simplest way to achieve standardisation was to use a Siemens product. So, in 1914, the speed telegraph equipment made by Siemens was put into operation.

With regard to transmission equipment, technological advancement caused competition between cable communications and radio communications. Confidence in radio communication increased due to the fact that secrecy was well preserved in this form of communication. Cable networks gradually decreased due to the high cost of operation and maintenance.

In economic terms, in ordinary situations, the telegraph service was very profitable. In extra - ordinary situations, such as the economic recession of the 1930s, the industry slumped. The telegraph traffic dropped. The reasons behind this poor business were 1) the improvement of airmail, and, 2) lower price of overseas telephone calls.

The economic depression posed a serious challenge for management.^{xvi} To face the challenge, management decreased expenditure and reduced the facilities for users on less profitable lines. Besides that, they introduced new tariffs and services to attract business. Telegrams could be sent by telephone for an additional .25c, or received by telephone for no additional charge. Simple telegraph stations were established, facilities to send a pictures, ship telegrams and greeting telegrams were introduced.

When the second world war broke out in 1939, the Dutch East Indies government proclaimed itself neutral. It was broken up from the Dutch government and colonisation was ended. During September 1939, the PTT department took over the facilities of Cable and Wireless Ltd. Due to the war, telegrams to overseas destinations were restricted and censored. On the other hand, as a result of the explosive situations in the Western Europe, activity at the telegraph office increased to the extent that the telegraphic service was obliged to continue even on Sundays.

Telephone

The history of the telephone in Dutch East Indies started in 1881.^{xvii} The government, in Decree No 5, dated 31 July 1881, gave a concession to install telephone for twenty-five years to a private company, 'Intercommunal Telefoon Matschappij'. The company was responsible for establishing telephone communication between cities. After the concession period expired, the government took over the telephone network and delivered that authority to the telephone division in the Post, Telegraph and Telephone

Department.

Concerning the network, the PTT department built a Central Battery Telephone Exchange and, implemented Ericsson's Automatic Distribution System in 1921. The network did not succeed in increasing the telephone service. A shortage of skilled manpower and spare-parts were the main barriers to service development, though after World War I, there was steady development in the technology itself. A lot of manufacturers in Europe and America failed to meet the great demand, and the Dutch East Indies maintained a competitive capability in the telecommunication industry.

Concerning tariff, various tariffs were applied by private telephone companies before 1913.^{xviii} The telephone tariff structure for monthly subscriptions was as set out below:

Table 5.2
Table Tariff
for Batavia, Weltevreden, Semarang and Soerabaja

<i>a. Batavia</i>	<i>f.30</i>
<i>b. Weltevreden</i>	
<i>shops</i>	<i>.25</i>
<i>hotels</i>	<i>.40</i>
<i>general public</i>	<i>.15</i>
<i>c. Semarang and Soerabaja</i>	
<i>trading offices and shipping agents</i>	<i>.30</i>
<i>shops</i>	<i>.25</i>
<i>hotels</i>	<i>.40</i>
<i>general public</i>	<i>.15</i>
<i>meeting places</i>	<i>.50</i>
<i>packing companies owned by subscribers</i>	<i>.15</i>

(from: Directorate General of Post and Telecommunications, 1982, *History of Posts and Telecommunications in Indonesia*, p.107)

From June 1913, uniform tariffs were applied based on the number of calls. The initial impact was a reduction in revenue in the first months of approximately f.5000 per month. However, the shortfall was soon off - set by the increasing number of the subscribers.

Concerning service, calls were classified into three types: urgent, important and ordinary. These designations determined priorities in meeting requests for inter - city telephone services. In 1927, the management introduced a new service that had a higher priority than urgent calls. The type of service did not effect the tariff for the service. The normal tariff was applied for all types of services.

In March 1927, new transmission technology from Philips arrived, in order to increase the service capacity. Radio telephone services made it possible to link Dutch East Indies and the Netherlands. Thus, the new transmission made the capacity of the telephone equal to that of the telegraph, leading to a decision to combine the telegraph and telephone services in November 1929.

Concerning manufacturing, management built the Radio Laboratory in Bandung, with the aim in the long - term of increasing Indonesia's self - sufficiency in technology. The laboratory succeeded in producing a crystal telephone transmitter in December 1927. The quality was excellent and the laboratory attained worldwide recognition. However, due to the economic recession and the second world war, the laboratory's work slowed down and, it finally closed in 1939.

PTT Organisation

There are very few data available in existing historical documents concerning the details of the organisation of the Headquarters of Posts and, later, Posts and Telegraph.

The organisation of the telecommunication industry began with the Postal Service section in 1846.^{xix} This section, which dealt with mail and coach mail, was under the management of the 'Direkteur der Produkten en der Civiele magazijn' (Director of Agriculture and Civil Warehouse). The introduction of telegraph services in 1856, expanded this section, but the organisation of the two services was kept separate.

In 1875 the Post and Telegraph Services were under the 'Department der Burgerlijke Openbare Werken (Department of Public Works). In 1907, post and telegraph came to be viewed less as a public service and more as a public business. The Posts and Telegraph Service became a Division of the 'Department van Gouvernementsbedrijven' (Department for Government Corporations). The Posts, Telegraph and Telephone Services was headed by a high ranking official with the designation 'Chef van de PTT dienst (Head of PTT Service).

By 1924, the development of the business required an organisational change. The PTT Headquarters was divided into three divisions: the Administrative Division, the Postal Division, and the Telegraph and Telephone Division. Heads of division were responsible to the Managing Director. Besides that, the organisation had 7 Posts and Telegraph Inspection areas and 7 Telegraph and Telephone Districts, in order to cover all areas in

the Dutch East Indies.

To cope with technological advancement, in 1926, the PTT Laboratory was established in Bandung. This laboratory, which was actually only a workshop, could only produce lead seal for sealing mail bags and manufacture date stamps. Following the PTT laboratory, in 1929, the Radio Laboratory and the Radio Equipment Centre were founded. These laboratories became the nucleus of research and development in telegraph, telephone and radio.

Accounting Practice in Dutch East Indies Colonisation

The first accounting practice in this period was the institution of a unified monetary system. In 1609, the management of VOC noted that their primary concern was to implement a monopoly over the Indonesian economic, social and political system.^{xx} They believed that a standard medium of exchange would make the native people obey the Dutch economic policy.^{xxi} They were conscious that no other nation had applied its monetary system to the Dutch East Indies. Each tribe and kingdom in the area used a different kind of money. Because of the different types of money used by merchants, the Dutch raised a campaign to use Dutch coins called *rials* (made of silver and gold). In a short period, the Dutch gold coin became the most valuable medium of exchange, and silver became the most important one. The Dutch silver coin dominated the trading among native people and Dutchmen.

The management of the VOC was successful in developing their business. They

expanded to some new industries, such as telecommunication. At the same time, management also injected their technology into new areas, including recording practices. The development of recording or documentary provided some statistical and qualitative data about the growth of telecommunication industry, as shown by the following summary from the Indische Verslag, 1938:

Table 5.3
Summary of Balance (+) or Deficit (-) in 1,000 guilders
PTT Company
1925 – 1932

Year	Postal	Telegraph	Telephone	Total
1925	2,878.3	-2,849.9	600.0	628.4
1930	2,897.5	-3,842.0	729.5	-215.0
1931	2,500	-4,392.5	334.8	-1,557.8
1932	3,153.9	-4,271.6	-493.7	-1,611.4

(from: GB Admiralty, 1944, Netherlands E. Indies, v.2, Oxford University Press, London)

From the table, technical accounting practice must have been in operation since 1920. From other documents, it appears that technical accounting practice was confirmed to inventory recording. The handbook of the Netherlands East Indies, for 1930, contains records of types of lines from 1900. The statistical table in that book described the condition of wire inventory.

Considering those facts, the initial development of the accounting system was in the inventory side. The phenomenon led to the enlargement of the cost accounting system. Because of a growing management focus on performance, the income statement was the main focus of accounting.

On the side of revenue, the management applied a circular tariff for a telegraph service. The circular tariff system put every place, which was equally distant from the place of sender, in the same price band. During the colonial era, there were two price bands: for distances within 75 km and distances over 75 km. The difference was about 5 cents per word.

The government of the Dutch East Indies regulated the marketing strategy, especially the tariff system. Government policies focused on developing the mass media industry and other infrastructure industries. On the other hand, the marketing strategy was to increase the number of customers. So, the government, with reference from management, gave special treatment to the press, making press telegrams only one-fifth the cost of normal ones. The reason was that press telegrams, like government ones, outnumbered normal ones.

Management elaborated the treatment for other customers, e.g. railway and train companies, still applying a circular tariff. The charge to these companies, as to the press, was only one - fifth of the normal one.

As regards telephone services, the government did not interfere in tariffs. The private companies' management issued their various tariffs. Up to the end of the colonisation, the tariffs were for four cities only: Batavia, Weltevreden, Semarang and Soerabaja. Marketing strategy dominated the tariff policies, which was based on customer

classification. Tariffs for shops and hotels were different from those the general public and meeting places. The cheapest rate for telephone services was for the general public, and the most expensive was for hotels.

In 1913, management changed their marketing strategies, due to the increase in demand. To disseminate telephone culture, management altered the tariff strategy to a uniform tariff system. The new policy shocked the customers, and the number of general public customers decreased for the first few months, which affected the companies' revenue. However, these drops were covered by the increase in subscribers in the next few months. The 1913 policy was a long-term perspective on the strategy of an accounting rate.

From the above discussion, the modification of the accounting rate did not directly affect on the telegraph service, but it affected the telephone. The development of the telegraph was still rapid, reducing the deficit on the telegraph's balance of payment. On the other hand, the change in the telephone rate increased the profitability of the telephone service. Management discovered that the telegraph was already regarded as a public need, so, they developed a combination of telephone and telegraph services.

Problem of Accounting in Dutch East Indies Colonisation

The economic recession affected the telecommunication industry dramatically. Profit fell and the business slumped in the 1930s.^{xxii} The business infrastructure, such as accounting and finance, was not equal to the demands of the situation. On the accounting side, the income statement lost its capability to reflect the recession conditions.

In the inventory practice, management did not re-value the goods and equipment.^{xxiii} Assets were reported at their historical value. This led to accounting reports being overstated.

The lack of development of financial accounting led to misleading representation of the industry and companies' situation, reducing the confidence of society. Management's were slow to respond, as they were busy with war and economic pressures on their personal households. This lack of awareness continued until the Japanese occupation. The only positive side to the situation was the cost awareness of management and government.

Accounting Phenomena

The cost accounting practice led to the development of the recording system in the colonial era. Management focused their activities more on the revenue side. The work on marketing grew rapidly. Much innovation took place in services and strategies.

During the recession era, the economy was in an uncertain position. Telecommunication revenue dropped. On the other hand, the price of spare parts increased expenditure. The management, for the first time, paid attention to the cost side, and developed some 'expenditure' programmes.

Management introduced cost reduction programmes by 1) reducing the facilities for users

on less profitable lines; 2) decreasing the facilities for employees and not hiring new employees. The less profitable lines were press and railway lines. These were made available at restricted times, especially in the evening. Urgent telegraph facilities were given the same treatment as the priority ones. On the other hand, the important and ordinary facilities were increased in some main telegraph offices.

Revenue was still the main concern. The management set a new strategy for increasing revenue. The strategy relied on the development of the service, based on the basic facilities. The new programmes included sending telegrams via telephone; introducing picture telegraphs; greeting telegraphs; and, shipping letter telegram services. Thus, it appears that cost consciousness underlay the innovations of the recession period.

5.3.3 Japanese Occupation

Preliminary

The Second World War broke out in 1939. The alliance of Japan, Italy and Germany rapidly beat down the rest of Europe and Asia, including the Dutch East Indies. The war brought a change in conditions, as many governments changed and all companies were mobilised toward facilitating the war.

In the Dutch East Indies, the Netherlands colonisation government surrendered unconditionally to the Japanese army on 8th March, 1942. The new government directly organised the new colony into three military government areas: Sumatra - Bukit Tinggi, Java - Jakarta and other islands – Makassar, with the Singapore headquarter as co-

ordinator of the three areas.

However, political situation changed rapidly. In 1945, the German-Japanese alliance lost. The condition of the Dutch Indies had altered in three years and the native people were happy with the status quo, after the Japanese surrender focused on preserving independence.

Organisation

The industry structure was Japanese occupation had to comply with the government framework, especially in the military interest. The industry was segmented into three areas : Sumatra, Java and Celebes, supervised by the Japanese private telecommunication company, Kokusai Denki Tsusinkyoku. The positive aspect of the new structure was that native people got opportunities to be office leaders,^{xxiv} unlike the situation under Dutch colonisation, when all leading positions in all government institutions were monopolised by the Dutch.

Extensive restructuring was undertaken. On 1st October 1942, PTT was split to form two separate entities, the Postal Service and, the Telegraph and Telephone Service. Both became parts of Gunseikanbu in Singapore. One year later, on 1st September 1943, the Postal and the Telegraph and Telephone Service were reunited.

A change in government structure took place affecting the PTT structure directly. The government of Sumatra was separated from 'Gunseikanbu' Singapore and became

'Gunseikanbu' in Bukittinggi. The PTT service, which was henceforth called Tsusinbu, became a part of Gunseikanbu in Bukittinggi. The name was later changed to Tsusinsokyoku. The names of the PTT Branch offices in Medan, Padang and Palembang were also changed to Tsusinkyoku. The Postal service was called Yuseibu and the Telegraph and Telephone Service was called Denseibu.

As the war approached an end, the crisis of the Japanese position led to further restructuring.^{xxv} On 1st June, 1945, the PTT Service was reorganised into two separate entities. First, the Postal Service which was called 'Yuseihan' and came under the supervision of the 'Gunseikanbu Samubu Department' (Department of General Affairs of the Japanese Military Government). Second, the Telegraph and Telephone service which was called 'Tsusintai Sireibu' and was placed under the direct supervision of the Japanese Supreme Military Government. The PTT Branch Offices in Medan, Padang and Palembang were each divided into two separate branch offices, the Postal Branch Offices being called 'Yuseika' or 'Yumuka' and the Telegraph and Telephone Branch office being called 'Tsusintai'. In other areas, branch Tsusintai, called Tsusinsyotai, were established.

Before the Japanese surrender, on 14th August 1945, the Postal and the Telegraph and Telephone Services were reunited into one PTT Service called 'Tsusinbu'. The branch offices of the two former services (Yusika and Tsusinsyotai) were also joined and called 'Tsusinkyoku'.

Management

During the second world war, international telecommunication was limited to Japan and Germany. The industry's operations were run to support the military interest. Because of its strategic position, Indonesia was the centre of war telecommunications. The Japanese government installed the newest technology, which was speedy, accurate and safe. Most of the equipment was from Siemens, Germany. The government applied that technology, in order to create direct links between Jakarta - Makassar - Bukit Tinggi - Singapore and Tokyo.

Concerning tariff, the government abolished all charges to government bodies. To cover the cost of this policy, they increased all postal and telephone tariffs for the public.

As regards industrial policies, the occupation government implemented decentralisation of financial reporting, to provide important information on the each region's profits and losses. The strategy facilitated control and planning. However, because of the abolition of charges to government, the profit was not enough to cover all government expenditures.

The unique phenomenon in management was the increased the role of native people, who started getting opportunities to create network and equipment. They learned fast and prepared for their independence. By 1945, they had succeeded in providing an illegal transmitter for the underground movement.

Summary of Japanese Policy

During the Japanese occupation, some developments of the telecommunication took place, as follows:^{xxvi}

- a. Decentralisation of the PTT Service
- b. Merging of the Postal Savings Bank into PTT Service
- c. Merging of the regional government, the Deli Railway Company and the Biliton Tin Company telephone Networks into the PTT Service
- d. Organisation of a PTT Radio Broadcast
- e. Increasing telephone and telegraph tariffs
- f. Construction of radio stations in all residential capitals
- g. Direct radio links between Bukittinggi and Bandung, Bukittinggi and Tokyo, and, Bukittinggi and Singapore.
- h. Inter-city connections using open wire carrier systems
- i. Cable links between Pakanbaru and Mallacka

Accounting Practice in the Japanese Occupation

During the Japanese occupation, the accounting practice was focused on supporting military strategies. The development of the business ceased. The government made all manufacturing and industry work in the military interest. So, in this period, the work of accounting focused mainly on the recording of equipment inventory. A telecommunications centre was built in Bandung. The strategic position of the Javanese island, between two oceans and seas, had attracted the military commanders' interest, and lot of new equipment was introduced. These activities required a sophisticated inventory

system. The management of the PTT fulfilled that need by establishing an inventory - book keeping system. The application of this accounting system was supervised by the Japanese Private Telecommunication Company, Kokusai Densetsu Tsushinkyoku.

To fulfil a long - term need, the government set up an accounting education programme for technicians and administrators. Many native personnel benefited from this training, which lasted between six months and one year. On the Japanese curriculum, accounting was taught as financial management A, financial management B and financial management C.^{xxvii} The material focused mainly on technical-procedure recording.

Phenomena of Accounting

The Japanese government changed the structure of the telecommunication industry, putting the new organisation into the context of military strategy. For planning purposes, the colony was divided into three areas: Sumatra, Java and Other islands. All supporting activities followed the new structure.

Though the government restructured the industry, they allowed the existing bookkeeping practice to continue, because they did not have their own system. They asked some Dutchmen to do their administrative work. The Dutch were also employed as teachers in some administration training courses.

The government's transformation had a radical impact on accounting. The Japanese's interests drove accounting into different directions. Their interests are: 1) to gain the

support of the Indonesian people; 2)to gain support in the World War; 3)to establish colonial rule.

To serve the first interest, the government decentralised financial responsibilities to branch or regional representatives. Each region had to report its income statement. This policy created more positions for the natives. Some of them even became leaders in their organisations, which helped the progress towards the Indonesian independence.

To serve the second interest, the Japanese government needed a sophisticated administration to reorganise their army, especially on the inventory side. They built some central telecommunications facilities and brought in some new equipment. The Dutch had already left some productive manufacturing and equipment. The military government reorganised all those facilities, and deployed them as a powerful support for the army.

The final interest was served by the Japanese government's encouragement of accounting education. The aim of this programme was to establish the administrative capability for future colonisation. In fact, the natives took advantage of this opportunity to support their independence movement.

5.4 Old Order

The attainment of independence was an important stage or political event, which re-oriented the policies of industry, including telecommunication. Whereas, during the pre-independence struggle, telecommunication was used against the people, in this period, it became a movement for the people. Since political interests dominated the industry, economic aspects were comparatively neglected. Thus, in the Old Order, telecommunication experienced struggle and internal political conflict.

5.4.1 War of Independence

Preliminary

Indonesia declared its independence in 17th August 1945. The last sentence in the independence statement specified:

*the efficient transfer of power within as short a time as possible
(from: Directorate General of Posts and Telecommunications, 1982, History of Posts and Telecommunication, book 2, p.13)*

As part of the take over process, some facilities, such as telecommunications, were transferred directly from the Japanese to the Indonesian government. This process went smoothly up to October 1945. Some telecommunication institutions, such as the telephony section, laboratory and telegraph offices, were still working.

Conditions changed, however, on 23rd October, 1945, when the allied troops landed in

Jakarta, with the Dutch wearing allied uniforms.^{xxviii} An independence movement arose simultaneously all over Java and Sumatra, resisting the return of colonisation. Fighting flared up everywhere.^{xxix}

In these circumstances, the Indonesian army had to reorganise. According to army commander, Colonel A.H. Nasution:

With the surrender of arms set for 6th October 1945, it was important to take control of the telephone (from: replika - DR A.H. Nasution, Sekitar Perang Kemerdekaan, jilid 1, Bandung, Angkasa, 1977)

The armies took the equipment to safe places in some cities. Most of the equipment was small, light, had its own power supply and was transferable. These characters enabled the telecommunication equipment to be operated to protect the independence movement and security.

The fighting intensified. On 4th November 1945, the telephone office was taken over by the Allied Forces. The telephone line was cut for five days, because the youth of the Post, Telegraph and Telephone Department (AMPTT) refused to co-operate.^{xxx} Some equipment and telephone facilities were moved and, some was damaged, but around 1946, AMPTT succeeded in establishing an emergency facility for inter - divisional and inter-departmental communication.^{xxxi} Finally, on 19th September 1948, the President instructed that all vital enterprises should be militarised.^{xxxii}

A United Nations resolution supported by other developing countries asked the Dutch to

approve the independence of Indonesia on 27th December, 1949.^{xxxiii} However, the Dutch were reluctant to comply with the UN resolution, as they did not want to lose their wealthy colony. They imposed a blockade on the area, with the aim of developing the economy.^{xxxiv}

The United Nations, finally, asked the Dutch and Indonesia as to have a meeting. The first meeting was successful in producing a Truce Agreement, which ended the blockade.^{xxxv} The meeting was followed by the Renville conference, which produced an Agreement that economic, trading, transportation and communications activities should be reactivated as soon as possible through co-operation between the two parties.^{xxxvi}

The Condition of the Industry

The condition of the telecommunication industry improved after the end of First and Second Clash War.² A variety of services, such as sending of letters, goods and money, telegrams and telephone services, were provided. Management installed some new facilities. However, the government identified some problems:^{xxxvii}

- a. Lack of space in the new locations because of the number of government services that fled to the new Indonesian capital
- b. Lack of reasonable accommodation for employees and their families
- c. The amount of material and operational equipment which had been left behind in the office of origin
- d. Physical and mental adjustment to the new situation and environment which demanded endurance because of the revolution
- e. The shortage of experts both technical and administrative
- f. The land, sea and air blockade imposed by the Dutch

² The Clash I and II Wars were the greatest fighting between Indonesia and Dutch after Indonesia declared its independence. The Clash I War was in December, 1946. The Clash II War was in July 1947.

Most of the problems were on the management side. The government provided some assistance by establishing a Post, Telegraph and Telephone Advisory Committee,^{xxxviii} on 29th May 1947. Its duties were to assist and give advice to the Heads of Divisions in their decisions concerning:^{xxxix}

1. The budget
2. Policies related to labour
3. Policies related to tariffs and the broad outlines of PTT regulations
4. Plans for the development and extension of the PTT department

The improved conditions and support of the committee enabled the management to reorganise their work.^{xl} First, the management of PTT formulated job descriptions so each employee would know exactly what was expected of him. Second, the management implemented the Salary Regulation – 1948, based on the assumptions that a regular salary and a high position would be the motivation for accepting and carrying out certain jobs. Those points settled the management process.

Unfortunately, the second point had a negative impact on the PTT employees.^{xli} With a salary, which, on the average, was only sufficient to buy one or two kilos of rice, the PTT employees had to struggle with all their might to carry out their responsibilities as they should. Consequently, the employees' economic plight reached a critical peak.

The poor economic conditions were among the main causes of the collapse of the PTT company. Other contributing factors were: employee dissatisfaction; absenteeism neglect of responsibilities; employees leaving for other government departments; small scale corruption; and loss of leadership.

In this situation, the government shifted the PTT's direction. Management and the government agreed to move towards centralisation, instead of decentralisation.^{xlii} The policies of the industry as well as management had to support the goal of converting the company from a company suffering losses to a company making a profit.

Soon after the war finished, in 1949, management evaluated their involvement in the independence movement. PTT had bought a lot of new equipment to support the struggle. That equipment came from Singapore traders. During the war, market prices fluctuated. If purchases were limited, the efficiency of the services could be affected; on the other hand, there was a need to improve cables and telephones. Though the equipment was very expensive, the interest of independence had to take priority. This problem burdened the company's finances.^{xliii}

Due to the great problems facing employees and management, PTT held the second national conference.^{xliv} It was decided to find a way to increase tariffs on the basis of the burden of employee allowances. This meant no longer leading money to the Government and army. Unpaid telegrams by government and army should be exchanged to *in-natura* product and cash-book. Salary payment should conform to the new 'Salary Regulations'. The management implemented those decisions soon after the conference finished. However, those policies did not affect performance. Management found that the problem was not only one of management capability, but also of lack of capital, shortage of equipment and problems of communication and transportation.^{xlv}

As PTT was a public enterprise, management performed some national tasks, such as reactivating telecommunications in areas still in the hands of the RI forces; preparing the necessary materials and determining their attitude to the merging of the department to the Federal Post, Telegraph and Telephone. They succeeded in accomplishing those tasks, which boosted employees' morale.

Accounting Practice in the War of Independence Period

Soon after the declaration of independence, the Youth Movement (AMPTT) took over some telecommunication facilities, which varied in condition. The management listed the equipment and made a note of its condition. This took six months. Those inventory records played a significant role in setting the war strategy.

Inventory of the industry was completed in 1947. A burning out strategy was applied during the clash wars. From a military perspective, this strategy was very successful. NICA or the Dutch army could not use any facilities, outside their barracks. However, the strategy caused loss of notes and documents, including those related to the telecommunication industry.^{xvi}

Soon after the war finished, management made an evaluation. The war impeded the industries' activities, in technical, administrative and personnel terms. On the administrative side, management required a new work procedure. The government established Advisory Committees. However, there was a shortage of skilled employees,

as during the revolution, many employees were killed, missing or moved to other continents. These conditions caused a lack of communication among management.

The problem was caused not only by internal condition, but also by external interventions. The Salary regulation - 1948 had removed the Dutch system. The assumption of the new system was that a regular salary was sufficient motivation for doing a job. The system eliminated the performance reward. However, the application of the regulation had adverse effects on the employees' economic situation.

In these conditions, the inventory system and the information procedure were the main features of accounting practice in the war of independence period. In the first two years, management focused on inventory inspection, in order to find out the real condition of the telecommunication equipment.^{xlvii} The inventory records provided information on needs for equipment and maintenance. To respond to that information, management had to develop appropriate budgeting procedures. During 1948 and 1949, cable and wire maintenance were priorities in the telecommunication budget.^{xlviii}

Phenomena of Accounting

The Salary Regulation was the first major impact on accounting. The regulation was based on an assumption of static and ordinary conditions, i.e. that employees spent their life in the same place, and that the style of life was the regular one, village style, with the cost of living estimated accordingly. Those assumptions were not applicable to employees in the telecommunication industry, who often had to move in the course of

their work, and mainly lived in the city. Much of the salary was paid in kind, in rice, fish, oil and fruit. However, the quality of goods was poor and the quantity not sufficient. Besides that, in the villages and outside Java, the bad transportation conditions made it difficult to deliver the goods, so most employees receiving only the monetary portion of the salary and struggled to survive.

The Salary Regulation phenomenon offered a very good experience for management, as an exercise in power. As a public enterprise, the PTT had an obligation to follow the government regulation. However, in the case of the industry and the company, economic and psychological considerations were also involved.

5.4.2 Liberal Democracy Era

Preliminary

After the end of the independence war, in 1950, Indonesian history turned a new page, with an atmosphere of a liberal democracy. The governmental system was a parliamentary one. Numerous political parties contended in the 1955 general election. Change in the cabinet became common.^{xlix}

The liberal democracy era put politics first, and economics lagged behind. The government did not succeed in formulating any clear economic plan for the next ten years. This chaos produced economic stagnancy, followed by the PRRI and Permesta rebellion of 1958. Outer Java demanded more power.¹ Those rebellions took up much of the budget, energy and spirit of the government. In fact, there was no economic or

political development in 1958 and 1959.

Industry

The restoration process begun in the war of independence period had not finished yet. The scorched earth policy and guerrilla fighting caused the cutting of hundreds of kilometres of telegraph and telephone networks. Much equipment was damaged or lost, causing interruptions to communication in some parts of Java, Sumatra and other islands.ⁱⁱ

Fortunately, management restored the damaged offices and the broken cables immediately. Trading in postal, telegraph and telephone communications increased. Those improved conditions were the results of the restoration of peace and security after the recognition of Indonesian's sovereignty. Management also increased their capabilities to solve a lot of problems. Some of problems were overcome in a relatively short time. The work atmosphere during this period has been described this:

- i) both the leadership and the employees were inspired with a spirit of enthusiasm to build up the country, for their souls had been trained by the severe discipline of the recently - finished independence war*
 - ii) the tolerance shown by 'non' and 'co' employees was great and thus this problem did not drag on*
 - iii) the form of the administration was very good and thus hardly any alterations were required*
 - iv) the archives and documentation over tens of years were in most cases still intact*
- (from: Directorate General of Posts and Telecommunications, 1982, History of Posts and Telecommunications, vol.3, p.14)*

The satisfactory internal condition was in parallel with the favourable macro condition,

such as: i) the extensive opening of trading links between village communities and towns; ii) the even spread of education right into the isolated corners of Indonesia; iii) urbanisation which increased trading communications between cities.^{lii} These three factors boosted the development of telecommunications in Indonesia. With the extensive opening of village communities to trading links with towns, the great need for accurate, direct, two way communications between the two groups was felt strongly, while the rapid spread of community education increased community consciousness concerning the use of government services designed for the community.

Those favourable conditions were, however, enjoyed by the western part of Indonesia only. Eastern Indonesia remained unstable until the end of 1951. Around the beginning of 1952, a link between the two main cities in the eastern part, Ambon and Ujung Pandang, was opened to the public.^{liii}

Concerning tariff, Indonesia adopted international standard rate. This policy had increased charges for telephone and telegraph. On 1st March 1952, the tariffs for interinsular and international radio telephone conversations were increased by 20% and 60% respectively. Three months after that, the tariffs for interinsular radio telephone was increased again by 33.3%. For telegraph, the adjustment to the international rate had increased revenue from overseas telegraph activities.^{liv}

Concerning telecommunication demand, the demand for telephone increased. 40,000 people requested telephone connections. 12,000 of these people pushed strongly for

telephones. In 1954, the number of people strongly requesting telephone links rose to no less than 15,000.^{lv}

Concerning the influence of political activities, in 1955, Indonesia hosted for the Asia - Africa Conference. This activity brought a tremendous increase in postal, telegraph and telephone traffics. In the yearly report, the increased traffic was attributed to increased activities in trading and politics.^{lvi}

Concerning public relations, in 1956, a PTT Handbook was published which contained regulations concerning telegraph and telephone services. The purpose of the publication was to provide the community with information concerning the telecommunication and post industry. The book was sold to the public for Rp 15,-.

The internal rebellion of PRRI and Permesta, which broke out in February 1958, caused a great loss to the telecommunication industry both in the form of equipment and buildings which were severely damaged, as well as by halting communication services from and to areas which were controlled by the rebels.^{lvii} As a result, the volume of post dropped in 1958, particularly in areas where rebellion had broken out or where there were other disturbances to the peace. By contrast, the volume of telephone and telegraphic traffic was higher than in the previous years.^{lviii}

The discussion above has indicated some of the obstacles facing the industry. The following is a summary of problems which caused some delay in delivery of telegrams,

telegraph and telephone from 1956 to the end of this period:^{lix}

- i) interruptions due to the equipment, channels and transmission degradation in 1957
- ii) disturbances deriving from rebellion in various areas
- iii) a shortage of equipment, a shortage of experienced employees and transmission degradation
- iv) high level of cable theft

Organisation

After the war and colonisation, the organisation of the telecommunication industry was unsystematic. Management started the reorganisation process by setting the structure. In accordance with the Decree of the Governor General (contained in State paper 85 (1908)), the Head of PTT had the authority to decide the Inspection Regions. Thus, in October 1950, the Inspection Regions were transformed. Indonesia was divided into 7 Postal and Telegraph Operations regions and 7 Telegraph Engineering, Telephone Engineering and Operations regions (Dtt). The geographical areas of those regions were roughly the same.

The reorganisation was successful in expanding the number of post offices, telephone lines and telegraph facilities, though it was still insufficient to meet the high demand. The management realised that they had to move faster. To assist management, the government established a Dewan Pertimbangan Telekomunikasi (Telecommunication Advisory Council) in 1951 - 1952.^{lx} The members of this body were departments, which had an interest in the telecommunication field. The aim of the council was co-ordination of the telecommunication activities throughout Indonesia.

In 1956, the government, through the Director - General of PTT, discovered the slow progress of the telecommunication industry. The government, in March 1956, proposed to change the status of the PTT department.^{bxi} The PTT actually was a government - owned company on the basis of I.B.W (Indonesische Bedrijven Wet - Indonesian Corporation Laws). As an I.B.W company, the PTT department had only one source of capital for the construction of new offices and new installations and the replacement of old equipment, i.e. the government. Since the demand for capital was closely tied to the state's financial position, it is understandable that even though capital requirements were very high due to increase in community demand for the PTT service, the additional capital received by the department was not comparable to increased needs. The state's financial capacity frequently did not permit the transfer of sufficient funds to PTT.

To open the way for the exploration of other capital resources, the status of the PTT Department as an I.B .W. company needed to be changed. The most appropriate status and that which could most easily satisfy the requirements of the PTT department was that of a public corporation.^{bxi}

Accounting Practice in Liberal Democracy Period

The telecommunication industry expanded very fast. Revenue increased faster than expenditure, creating a hike in annual turnover from 1950 up to 1959. Management succeeded in making telecommunication a leading industry.

Table 5.4
Table Statistics for Annual Turnover
1950 - 1959
(Rp)

Year	Revenue	Expenditure	Turnover
1950	2,802,060,652.24	2,783,402,795.23	5,583,463,447.47
1951	4,516,007,510.305	4,480,103,475.765	8,996,180,906.07
1952	6,168,815,489.875	6,160,697,200.535	12,329,512,690.41
1953	7,200,386,934.075	7,183,107,124.015	14,383,494,058.09
1954	7,900,602,338.48	7,888,813,479.60	15,786,415,868.08
1955	9,413,324,211.47	9,422,683,215.82	18,836,007,427.29
1956	10,844,785,858.49	10,845,330,595.34	21,690,116,453.85
1957	12,787,907,710.52	12,687,644,881.75	25,475,552,592.27
1958	14,876,919,040.97	14,791,087,388.01	29,668,006,428.98
1959	19,095,357,327.45	19,031,512,525.36	38,126,869,852.81

Sources: Directorate General of Post and Telecommunications, 1982, History of Post and Telecommunications in Indonesia, v.3, p.28

From Table 6.4, the telecommunication industry expanded quite significantly each year. The growth of the business determined primarily by the demand side. Society's need for telecommunication services increased. Subscriptions were increased yearly. The national development programme also created increased need for telephones and telegraph services, with the linkage between rural and urban areas, the opening of the rural areas and also the increased trading between cities.^{lxiii}

With regard to tariffs, the industry had started adapting to international telecommunication standards, which required the management to increase the tariff for the international connections. Concerning the calculation of the balance for international calls, the management could not avoid the adjustment. Because of currency differences, the translation process began to be applied in accounting. The development of financial accounting in the telecommunication industry had started.

Concerning the administrative side, Yearly Reports had been issued since 1950. These reports described and summarised the most significant events of the year, the equipment and its condition, and financial matters. The significance of events was determined on the basis of urgency, international scope and vital equipment. For the second item, equipment, the report issued a special report on new linkages, transmission and new buildings.

The third item, financial reporting, was mainly a summary of revenue, expenditure, and turnover. The reporting described the budget and its realisation for each telecommunication project. Though the number of projects was not great, the yearly report analysed them in some depth, in order to give a clear picture of the physical development of the telecommunication industry.

Phenomena of Accounting

The interesting phenomenon in this period was the predominance in the yearly report, of technical facts, meaning events related to the telecommunication work. The yearly report was the '*Bedrijf Report*', issued annually by *Djawatan Pos, Telegraph, Telephone Indonesia* since 1950.

The preliminary section of the report contained a description of current conditions in Indonesia, in general, and the industry in particular. The stability achieved after the revolution was recognised as the key to the industry's development.

Di samping itu djawatan harus mengingat kemajuan perhubungan pos, telegraph dan telepon sebagai akibat adanya kembali ketentraman setelah penyerahan kedaulatan.

translation

(Besides that, the Djawatan should consider that the development of Post, Telegraph and Telephone was a result of the peace after acceptance of our independence declaration)

Sources: Jawatan Post Telegrap Telepon Indonesia, Laporan Tahun 1950,p.4

This general account of the macro condition was followed by reports on organisation, personnel and training. Those sections complemented one another. The reports were descriptive, rather than analytical.

The next section of the report discussed the telecommunication regulations and equipment. The regulations were renewed by many items adopted from international institutions. This policy covered telegraph barriers, the shortage of skilled telegraphists and a lack of telegraph equipment. It also regulated the opening of new radio telephone links between cities, either within Indonesia or internationally, the significant delays, accidents and social events, and barriers to telecommunication, e.g. problems with cables, equipment, lines and other telecommunication tools. Those matters occupied some 60% of the report.

At the end of the reporting, a summary of financial condition was provided. This consisted of several pages covering revenue, expenditure and profit. One page gave the balance sheet. It would be difficult to find any analysis in these reports. It seems that the

management did not see the industry as a business, but as a public service.

Thus, accounting was in an inferior position during the period of 1950 - 1959. Management did not pay much attention to financial reporting. The only element that concerned them was profit, which they took as the solo performance indicator. However, because politics intervened in management very much, the priority in the report was to explore the technical production side. In other words, management paid more attention to the technical process than other aspects of telecommunication.

5.4.3 Guided Democracy Era

Preliminary

In an official ceremony at 17.00 hours on 5th July 1959 in Freedom Palace (Istana Merdeka), the President's Decree concerning the dissolution of the Konstituante and the reinstitution of the 1945 Constitution within the framework of Guided Democracy was announced. Thus began the era of guided Democracy whose political dynamics brought changes in many fields.

This Presidential Decree saved the country from a political crisis and the danger of rebellions backed by secret intervention of foreign powers at a time when the political parties were generally proving ineffective. Due to instability, which had arisen associated with the problem of drafting a new constitution, President Soekarno decreed a return to the 1945 Constitution.

The revolution continued. In 1962, the government issued the Trikora declaration concerning the liberation of West Papua - now called Irian Jaya, and the Dutch reluctantly returned it to Indonesia. During this dispute, the government mobilised all activities, companies, funds and energy to gain the victory. After some time, Indonesia and Dutch agreed to have a Referendum to allow the Papuan People to decide whether to join Indonesia, join the Netherlands or be independent. The outcome was the return of West Irian to Indonesia and greater unity among the Indonesian people.

Another revolution was building, however. The President's introduction of Nasakom (Nationalism, Religion and Communism) concept, rather than promoting unity, created splits in society and power struggles occurred, in spite of the creation of Panca Setia (Five Vows), indoctrination and TAVIP (Vivere Pericoloso Year) courses. The strength of the Communist Party increased, culminating in an attempt to seize power by the G30S / PKI (30th September 1965 Indonesian Communist Party Movement).^{lxiv}

Organisation

The status of the PTT department had been debated for quite a long time. In 1960, it was believed that:

This was the appropriate time for the PTT Department to change its status from an IBW company, which was unable to move freely and adapt itself to community demand. (Sources; Directorate general of Posts and Telecommunications, 1982, History of Posts and Telecommunications in Indonesia, p.7)

Decree No. 19 was issued concerning Government - owned corporations. Thus, on 1st

January 1962, the status of the PTT Department changed to P.N. POSTEL.

According to Government Decree No. 240, 1961, the change of status of the PTT Department meant that all the rights and responsibilities, equipment and assets of the PTT Department were automatically taken over by P.N. POSTEL. The company's headquarters were to be in Bandung and its capital was to be Rp. 2,859,060. P.N. POSTEL was to be involved in the national economic development along the lines of a guided economy, giving priority to community requirements and peace and calm within the company itself as it aided the progress towards a just and prosperous society in both the material and spiritual realms.

The status changed promoted some benefits, such as: 1) easy to develop the employees' welfare, 2) increase funds for equipment, 3) make possible co-operation with other labour unions to obtain social support and supervision and 4) bring about desirable changes in the attitudes of employees.^{lxv}

However as it was desired to expand telecommunications faster, it was subsequently decided that

*it would be preferable for P.N. POSTEL divided into three companies: a POSTAL company, a Telegraph and Telex company and a Telephone company.
(ibid., , v.4, p.18)*

The government saw the great advantages of this idea. P.N. POSTEL, in 1965, was divided into two state-owned companies. The first was called Perusahaan Negara Pos

and Giro and took over all rights, responsibilities, equipment and assets of P.N. POSTEL in the field of postal services. The second, called P.N. Telekomunikasi, had all rights, responsibilities, equipment and assets related to the telecommunications.

Those new developments demanded a reorganisation of the industry. The government, in 1964, established a Telecommunication Council to replace the Telecommunication Advisory Council. The council was responsible for Telecommunication Administration, such as:

- *the determination or recording of field radio frequencies*
 - *the regulation of telecommunications*
 - *co-ordination of telecommunications organisation*
 - *the issuing of permits in the telecommunications and other fields*
- (*ibid.*, p.22)

The government explicitly stated the responsibilities of the Council in Decrees issued in 1964 and 1965. These responsibilities were:

- *organising the procedures for planning the importing, use and transfer of telecommunications equipment*
 - *the organisation of state examinations for radio operators and telephonists*
 - *policy related to telecommunications expansion over the period from 1965 to 1968*
 - *the granting of radio station permits as decreed in 1964*
- (*ibid.*,p.23)

Industry

In this period, annual reports were no longer published Circular letters were issued, but they did not give statistics concerning services provided to users.

The economic conditions of employees were still poor. The industry did not pay high enough salaries to meet basic needs. There was no guarantee that employees would be able to rent a house in their new post as the houses were no longer rented on a monthly basis but for longer periods and thus often, employees could not afford the cost.

As a result of the continued build up of economic pressures, management took the following steps:

- *improved salaries by paying a company allowance*
- *provided uniforms for all employees*
- *provided rice and sugar to all P.N. POSTEL employees according to the allocation from the Government*
(*ibid.p.73*)

Those steps were not enough to overcome economic hardship, however. There was an acute shortage of telegraph operators, as many resigned or returned to their towns, due to housing problems or economic difficulties arising from their low salaries.

At the macro level, too, economic conditions were becoming worse. In August 1959, the government issued some regulations concerning the reduction of the value of bank notes of Rp.1000 denomination to Rp 100, and of those of Rp 500 to Rp 50. Moreover, the bank accounts of more than Rp 25,000 were frozen. As a result of those pressures, the

telecommunication industry's money reserves were hit.

Those economic pressures led to telephone and telegraph tariffs increasing by 50%, 100% and 400%. However, these increases were still insufficient to balance out operational costs.

Concerning technology, the consciousness of technological dependency was beginning.

As Indonesia is completely dependent on overseas telecommunications technology, there are a variety of systems in Indonesia.
(*ibid.*, p.120)

At that time, the transmission was not only via cable but also via radio of various sorts such as HF, VHF and UHF, microwave and other terrestrial systems. Systems included the EMD / Siemens system of West Germany, the BTM Belgium system, the PRX Dutch - made system, the French - made CIT system and Japanese NEC products. With these systems also came additional facilities, supervisors and funds. Thus, the setting up of a telecommunication system covers everything from transmission and switching to buildings and equipment.

Accounting Practice in the Guided Democracy Period

The telecommunication industry was growing only slowly and, eventually declined in this period, due to the negative influence of external factors. The table below shows those conditions:

Table 5.5
Revenue and Expenditure
1960-1965

Year	Revenue	Expenditure	Profit
1960	859,100,000	858,500,000	600,000
1961	1,146,000,000	1,144,800,000	1,200,000
1962	1,677,000,000	1,667,800,000	(800,000)
1963	4,000,000,000	5,000,000,000	(1,000,000,000)
1964	8,010,000,000	8,826,000,000	(16,000,000)
1965	6,489,000,000	11,842,000,000	(5,353,000,000)

(ibid., p.111)

Economic pressures and unwise policies exacerbated the poor financial performance of the industry poorer. For example: in 1954, the economic policy hit the industry's saving. Another policy, NASAKOM destroyed the employees' morale. Management lost their internal control. At the same time, the adverse macro economic conditions led to customers being unable to pay their bills or request new lines.

In that condition, accounting practice reached its lowest point. Management had lost their capacity to produce report's properly. On the other hand, the increases in tariff reflected the inability of management to face the worsening economic and political situation.

Despite the slump in business and economic conditions, however, telecommunication officers remained forward - thinking and were possessed and future oriented of the telecommunication officers. In the down of the business and economic condition, the officers were able to contribute significant to the organisation. Management, in 1964,

decided to restructure the industry into two industries: Post and Telecommunications.^{lxvi} However, the actual split was postponed, for financial, personnel and educational reasons. Up to the end of 1965, there was no real step toward restructuring.

Phenomena of Accounting

Accounting's self - determination was exercised in this period. The phenomena in the Guided democracy period showed that accounting could lose its existence if environmental condition were unfavourable. Management was not able to produce the yearly report. In the last of two years of the period, management even lost their internal control. The deterioration in external conditions affected the internal condition of the industry and the company. In these conditions, accounting could not work appropriately.

The condition of management was normal up to 1960. However, the political demand put the telecommunication industry in a military situation. The President asked all public enterprises to support Trikora Movement. The war put the economic condition worse. The employees faced economic hardship. They could not rent houses near their new jobs. A lot of employees were absent, or worked elsewhere outside in their office hours. The value of the salary was decreasing continuously. These factors indicated a deficiency in internal control capability.

The political situation worsened. The NASAKOM campaign split the community into three groups: nationalist, communist and religious. This separation affected the employees' morale. Increasingly, the separation became an issue in matters of

promotion, leadership and working procedure in the management of the telecommunication industry.^{bxvii} Management lost their capability to lead the work and, at the same time, external (political) factors dominated the industry.^{bxviii}

In this situation, accounting could not work properly for two years, and eventually ceased to function altogether. As a result, there was no internal control in the organisation. At the same time, management's main concern was to build the infrastructure of the industry and create a strong foundation for future physical development.

5.5 New Order

In this period, the struggle of the telecommunication industry against stagnation continued. In the Old Order, the focus of telecommunication development was to support Indonesia's struggle to keep its independence. In the New Order, telecommunication became part of the national infrastructure, seen as one of necessities for national development. The flow of development in this period can be divided into two: Before 1981 and After 1981.

5.5.1 Before 1981

Preliminary

Indonesia experienced a turning point in 1966. The 11th March Order (abbreviated in Indonesian to SP 11 March or Supersemar) was issued to give General Soeharto a legal basis for the disbanding of the Indonesian Communist Party and the detaining of those who were believed to be involved in G30S / PKI. This instruction was also used as the

basis for the formation of a new cabinet. Historically, the 11th March Instruction was the beginning of the New Order. The basic goals of the New Order were:

1. The reestablishment of the life of the community, nation and State based on the pure and true implementation of Pancasila (the 5 Principles which are the basic philosophy of the Indonesian people) and the 1945 Constitution.
2. A total correction of past deviations in all fields and the attempt to build up national strength again and determine the appropriate ways to develop long term national stability in order to accelerate the process of national development on the basis of Pancasila and the 1945 Constitution.

A tremendous opportunity was seen to redirect national development. The national struggle for independence was over and the struggle for people's welfare began. In this situation, telecommunication was regarded as an important infrastructure, especially in view of the great distances and between Indonesia's islands.

Organisational

The first telecommunication organisation under the New Order was established by Presidential Decree No.63, 1966 on 27th March 1966. This decree was revised by Decree No. 163. The industry was managed by the Directorate General of Posts and Telecommunications which had a duty to participate in the organisation of posts and telecommunications on the basis of policy guidelines; to formulate a technical policy, a grant of guidance and instruction in accord with policy laid down by the Minister; and to guide the development of Perum Pos and Giro and Perum Telekomunikasi. Thus, guidelines concerning salaries, career planning, manpower planning, material, financial,

legal and organisational matters were issued for management of telecommunication companies.

From an organisational standpoint, the establishment of PT Industri Telekomunikasi (INTI) was the most significant event before 1981. A need for self-sufficiency in telecommunication equipment was reflected on telecommunication manufacturing. A strategy was formulated to develop this capacity. The Main Workshop and Laboratory of PN Telekomunikasi became the nucleus of a new telecommunication company. First, a separate budget and plan of activities had to be submitted to the Government. Second, the Workshop management proposed a complete plan to establish the assets of the new company. Third, the new management was appointed by the government. So, in 1974, PT INTI was established as a State- Owned Limited Liability Company.

Telecommunication Projects

In the New Order, the development of the industry has been a focus of government policy. The two main projects were Archipelago Telecommunication Projects and Domestic Satellite Communications System - SKSD PALAPA. In the first project, telecommunication links were established by Java Microwave Project, Sumatra Microwave Project, Banjarmasin Tropocaster Projects, and East Indonesia Microwave System. This project was undertaken by Submarine Cable Communication System, in order to open a telecommunication system among ASEAN countries, was completed by the end of 1981. However, the government felt that the links were still costly and slowly, so the second project was proposed. This project was shown through economic analysis

to be profitable and to offer advantages not measurable in financial terms.

SKSD PALAPA, which commenced operations on 16th August 1976, can be used not only for domestic telecommunications requirements, but also for domestic telecommunications requirements in other ASEAN countries. Subsequently, the system was developed to First and Second Generations. Preparation for a satellite system had been underway since September 1969. The Earth Station was built in Jatiluhur and temporarily, connected to the INTELSAT Satellite.

The telecommunication projects were experienced some difficulties, such as:

1. In several contracts with foreign companies, the problem of price increases arose. Contracts had allowed for price adjustments. However, this meant that the funds available were often not adequate to bring the project to completion.
2. Equipment for Pertamina projects in Jakarta was stored so long in warehouses while the problems which had arisen due to financial crises, were discussed that only approximately 8,000 of a total of 32,000 lu were still in good condition.
3. The funds for most of the cable network outside Jakarta, involving 60,900 links, were not available.
4. In 1976 and 1977, Project Allocation funds from the Government were not available.
5. Tenders were often delayed as there was no certainty of the availability of funds.
6. The projects undertaken between 1969-1981 were very big projects for Perumtel. Thus, lack of experience in project management was also a contributing factor in postponement of development in certain fields.

INDOSAT

In addition to telecommunication projects, the government found a need to establish a strong structure for the industry. Up to 1981, the industry consisted of INDOSAT - ITT, PT INTI and PT TELKOM. ITT was a foreign telecommunication company which established INDOSAT - Indonesian Satellite Communication, in order to manage international telecommunication for Indonesia. PT INTI was for telecommunication manufacturing and PT TELKOM for domestic telecommunication. Since INDOSAT was regarded as essential for development and having major implications for people's lives, the government decided to take it over, in order to increase the position of Indonesia in the telecommunication business.

In 1981, the government started negotiations to buy all ITT's shares in INDOSAT. The team, which was supervised by the Ministry of Development Planning, believed that the Government Agreement with ITT concerning the Development and Operation of Communication Satellite Facilities was not very favourable. They tried to reach a mutually satisfactory arrangement. The purchase price formula was determined as $\text{Purchase Price} = X + \text{Net Working Capital} - \text{Long term Liabilities}$. An agreement was reached in the end of 1981, at a price of Rp. 27,260,000.00. The new PT INDOSAT was given the responsibility for organising international telecommunications for the public.

Fund Raising

In this period, fund raising was a significant activity for the telecommunication industry.

In the early period, government faced a great difficulty. Projects continued for new automatic telephone exchanges, extensions to existing automatic telephone exchanges and the development of long distance microwave links. Financing for these projects was as follows:

Table 5.6
Financing Project 1966 – 1968

Year	Authorised amount	Realisation
1966	Rp. 22,500,000	Rp. 17,048,038.55
1967	Rp. 78,920,909.85	Rp. 77,893,129.51
1968	Rp. 56,430,175.61 (overseas)	Rp. 56,430,175.61 (overseas)
	Rp. 142,188,284.54	Rp. 140,724,675.70
V / 1968	Rp. 178,488,000 (overseas)	Rp. 178,488,000.00 (overseas)
	Rp. 30,481,887.18	Rp. 29,197,543.68
Total	Rp. 274,091,081.57	Rp. 264,893,287.44
	Rp. 239,918,175.61 (overseas)	Rp. 234,918,175.61 (overseas)

In order to finance telecommunication projects in 1966 / 67, before the required money was available, credit was obtained from South Sumatra - Regional Development Bank, Padang Branch of the Indonesian Development Bank, Madiun 081 Military Authority, Madiun Funds, and Jambi Regional Government. However, the finance after 1968 was supported by international finance institution such as ADB, IMF - World Bank and Foreign Governments, like USA. The percentage of foreign aid was lower than 30% of annual telecommunication budget.

5.5.2 After 1981

Preliminary

The world situation was changing for telecommunication. Since 1981, the telecommunication sector has been acknowledged as one of the most rapidly growing

industries, and Indonesia was no exception. The telephone capacity increased from only around 1 million lines unit (lu) to around 3 million lus. Indonesia was actually lagging behind many other countries with a low telephone density (1.24 telephones per 100 people in 1993) compared with other ASEAN countries (Malaysia - 10 telephones and Singapore - 36.6 telephones per 100 people). Besides that, Indonesia still experienced low service quality, because of congestion in telephone lines, telephones could not function properly. This led to a low Successful Call Ratio (SCR), which was 44.7% for local calls and 36.29% for long distance calls, compared to the ITU standard range of 50-70%.

However, political stability and high economic growth of around 7% annually encouraged reform of the telecommunication sector. Since many foreign investments were delayed due to lack of telecommunication, acceleration in growth was demanded. The government saw the need for an integrated reform concept to solve the industry's problems. Privatisation was seen as the solution.

Investment in Telecommunication Projects

The development of telecommunication industry was determined by PT TELKOM's, PT INDOSAT's and PT INTI's capacity. Since the main challenge of telecommunication was in domestic affairs, PT TELKOM played a greater role. Implementation capacity had in the past been a major constraint on TELKOM's ability to expand investment in response to the substantial and increasing excess demand for telephone service. A major challenge in raising investment in the sector, accordingly, would be to enhance

TELKOM's institutional capacities. A positive development in this regard had been the recent conversion of the telecommunication utility into a limited liability company, which had resulted in greater operational autonomy. Efforts were also being intensified to improve internal organisation and management. Progress in these areas was reflected in the recent increase in TELKOM's investment levels, and in the actual delivery of services. During 1992, TELKOM installed 635,000 new lines, surpassing its target of 525,000 lines; the number of lines installed in 1992 was about double the number of lines installed during the entire Repelita IV. Below is a picture of investment past, present and future.

Table 5.7
Indicative Public Investment Programme for Telecommunication

	Actual 1984/85 - 88 /89 (Repelita V)	Estimate 1989/90 - 93/94 (Repelita V)	Indicative Projection 1994/95 - 98/99
1. Physical Targets a)			
1.1. Total Telephone lines (millions)	0.9	3.0	7.8
1.2 Telephone density (lines/100 persons)	0.5	1.3	3.2
1.3 Successful Call Ratio (long distance,%)	20.0	30.0	45.0
1.4 Investment (Rp trillion, current prices)	1.4	6.0	13.0 - 19.0
2. Memo Item			
Self - financing of investment	22.2	40.0	40.0

a) At the end of Five - year periods.

Source: PT TELKOM and the World Bank

The proposed investment levels in Table 5.7 would achieve a significant increase in access to telephone service, and reduce the waiting list from about 75% at the end of Repelita IV to about 100% at the end of Repelita VI. The investment programme for TELKOM targeted a significant reduction in the utility's relatively high unit costs as well as an improved quality of service. These objectives deserved increased attention, and

their attainment would be helped by: utilising more cost effective technology; employing more competitive procurement and financing policies; improving human resources; adopting an integrated systems approach to project implementation; and adequately providing for operation and maintenance. More fundamentally, increased competition in service provision through greater private sector participation would accelerate efficiency. Private entry should be encouraged under open competition, not under institutional arrangements that risk converting a public monopoly into a private one. In telecommunications, instituting processes to ensure that investment decisions are made in the light of full information on fast - changing technologies is important. Improved financial performance resulting from more cost-effective operations should strengthen TELKOM's capacity to self finance its investment programme. However, the financing gap would still remain large, and would need to be financed from a mix of sources: foreign and domestic borrowing, subscriber bonds, and private investment, such as in PROTEL III and IV.

Table 5.8
Sources of Funding - PROTEL III

PROTEL III	TOTAL
World Bank	US\$ 350 million
KFW of Germany	DM 211.5 million
OECD of Japan	Yen 6.537 million
Indonesian Government	Rp 384.1 million

Table 5.9
Sources of Funding - PROTEL IV

PROTEL IV	BASE COSTS + CONTINGENCY US\$ MILLION	VAT 10 %	TOTAL EQUIV. US\$ MILLION	SHARE IN TOTAL (%)
1. WORLD BANK	373.00	37.3	410.30	28.94
2. French Government	147.35	14.74	162.09	11.94
3. Japan Government	101.61	10.16	111.77	7.89
4. US Exim	72.90	7.3	80.2	5.66
5. Germany Government	86.05	8.6	94.65	6.68
6. Dutch Government	94.55	9.45	104.00	7.34
7. Spanish Government	50	5	55	3.88
8. TELKOM	363.8	36.38	400.18	28.17
TOTAL	1289.26	128.9 3	1418.19	100.00

Source: World Bank (data processed)

Telecommunication Technologies

The progress of technology has multiplied telecommunication capacity which means more people can be served and more distance can be covered in less time and at less cost. This subsection will consider service technologies such as pay phones, cellular mobile telephones, pagers, radio-trunking, PSDN, and VSAT. This limitation reflects the telecommunication services, which is available in Indonesia.

Pay Phones. The number of pay phones has increased substantially by 66.75%. In 1993, the number of pay phones reached 49,556 units, comprising 41,674 coin phones and 7,882 card phones. In the same period, the number of telecommunication shops went up by an average of 74.6% annually. This is an indication of the great public demand for telecommunication services.

Cellular Mobile Telephones. Mobile telephone services in Indonesia are of three types: STBS - INTI, STBS - C (Cellular) and STBS - N (National). Since 1990, the private sector has been allowed to operate mobile telephones. The number of mobile telephone users has increased by 154.24% an average of 44.07% annually. In 1993, a decline of 13.76% was caused by switching the STB - INTI subscribers to the cellular system.

Indonesia HAS gradually applied the GSM (Global System for Mobile Telecommunication System). The system has been applied in the islands of Batam and Bintan with an initial capacity of 6,000 lu and with pulse charges of approximately Rp 23,000 / minute in busy hours and Rp 13,000 / minute outside busy hours.

Pager / RPUUs. These equipments, whether RPUU Voice, RPUU Numeric and RPUU Alpha Numeric, provide one - way communication and are widely used by low to middle level professionals. The number of pager subscribers in Indonesia was 79,924.75% of whom used local radio pagers and 25% used national radio pagers. This number was expected to increase about 30.3% annually, since Indonesia's economic growth was running at 6 - 7 % a year. However, the radio pagers business showed a tendency toward unhealthy competition which caused a 30% price cut. As a result, there was no increase in demand for 1994.

PSDN. The subscribers to the Packaged Switched Data Network (PSDN) are major companies which send large quantities of data / information and therefore need efficiency in their data / information delivery. The PSDN (subscription fee app. Rp 60,000 / month)

offers data transfers at a rate of 1,200 to 2,400 characters / second. Most subscribers are banks, financial institutions, insurance companies, manufacturing companies and travel agents. It is estimated that the number of subscribers will increase by 500 annually until the year 2,000.

VSAT. Very Small Aperture Terminal (VSAT) refers to a small satellite dish with a diameter of under 2 metres, weighing from 20 to 200 kg. Data communication companies operate under profit sharing arrangements with PT TELKOM with an average ratio of 25% PT TELKOM and 75% private investor and average profit sharing period of 20 years. The monthly frequency fee of Rp. 160,000 for VSAT operations is cheap compared with the frequency fee of Rp. 50 million for paging operations for the same areas.

ATM. The Automated Teller machine (ATM) is a facility offered by banks, in order to improve their services in terms of speed, accuracy and convenience. A single ATM can perform transactions with a total value of Rp 1.5 billion / day. Because of the costly investment needed, especially for an ATM Centre which may cost up to around Rp 1billion. Up to now, the number of ATMs in operation in Indonesia is only 515.

VMB. Voice Mail Box (VMB) is a telecommunication service with a telephone recording system, which is specially designed to meet business needs. This non-basic telecommunication service includes receiving and recording messages, appointments, complaints, short reports and other business information conveyed by phone. The

capacity utilisation rate of this machine is about 90% or equal to 1,800 telephone numbers. In 1993, the capacity for receiving messages was 14,025 messages, up by 100.4% from 7000 messages in the previous year.

Concessional Radio. This radio is a telecommunication system using radio wave which covers great distance. The advantage is its capability to reach isolated areas not covered by telecommunication facilities, such as telephone and telex. In the past five years, the number of concessional radio operators has increased by an average of 33% annually.

Radio and Television Broadcasting . Like private television, private broadcasting stations rely on advertising as their main source of income. The advertising spending on radio rose from only Rp 38 billion in 1989 to Rp 416.5 billion in 1993. In the past five years, the advertising spending on radio has increased by an average of 41% annually. For television broadcasting, the advertising spending on television has increased substantially by an average of 130% annually.

Telecommunication Equipment Industry. In 1974, the industry was begun with PT INTI. By the end of 1993, around 40 producers of telecommunication equipment had been established to produce telephone sets, switch boards and exchanges, other telephone apparatus, printer type, telegraphic receivers, transmission equipment and radio communication equipment. Total value of telecommunication export was about US\$ 401.7 million. Most of the equipment exported were supporting equipment in the form of magnetic type, video type recording equipment, amounting to US\$324,5 million and

telephone sets, amounting to US\$ 43.7 million.

Business Map

Figure 5.3.
Indonesian Telecommunication Business Map

SEGMENT				STRUCTURE	PROVIDERS		
SERVICES	Basic	Domestic	Local	Cable	Monopoly	TELKOM	Allow Jobs
				Radio		TELKOM Ratelindo	
			Long Distance		Monopoly	TELKOM	
		International			Duopoly	INDOSAT Satelindo	
	Non Basic	Mobile	Cellular		Oligopoly	TELKOM / INDOSAT Satelindo Private Sector	*AMPS *NMT *GSM *TACS
			Paging		Oligopoly	TELKOM Private Sector	
			Radio Trunking				
		VAS			Competition		
Private Network				No Resale	Various Providers		
CPE	Full Competition						

Source: Data Consult Inc., 1991

With the issue of Act No.3 of 1989, Government Regulation No.8 of 1993, and Ministerial Decree No.39 of 1993, the telecommunications business landscape in Indonesia has changed from one characterised by monopoly to one characterised by competition. Nowadays, only basic long - distance telecommunications services are monopolised in Indonesia.

Figure 5.3, shows, in brief, how the telecommunications business landscape in Indonesia looks following the issue of Act No.3 of 1989. A radical change has been made by

government, to increase the industry's capability in the age of globalisation. A spirit of privatisation has influenced government to reform the industrial structure away from monopoly and open it to private sector participation. In other words, a business attitude has been emphasized as one of the industry objectives.

5.6 Discussion

The foregoing discussion of each period of accounting's role in the industry has covered the most important facts of Indonesian telecommunication history. As a record of each period, accounting documents show the telecommunication stages from the ancient kingdom period to the present. So, in line with a purpose of this chapter, this section will highlight the role of accounting in telecommunication industry and of privatisation in telecommunication history. Table 5.10 below, summarises the development of the accounting role in the industry. It can be seen that accounting has existed in each period of history. Even though the role of accounting has been different in each period, it has been a reflector of industrial development. Thus, telecommunication history can be studied from an accounting point of view.

As Table 5.10. shows, the product of accounting has varied over the years. In the ancient kingdom, the accounting processes produced *upeti*. The forms of product could be human, goods and services. When the Dutch colonisation commenced, the product was coin. It was a symbol of the monetary system and monopoly trading. In twenty years, the management of the Dutch company - VOC established the modern forms of the product, such as: income statement, inventory record and tariff.

Figure 5.3.1

**The Development of The Accounting Role
in the Telecommunication Industry in Indonesia
(Ancient Kingdom - 1993)**

	Ancient Kingdom	Dutch East Indies	Japanese	War of Independence	Liberal Democracy	Guided Democracy	Before 1981	After 1981
Form	upeti	-coins -income statement -inventory record -tariff	-income statement -inventory record -tariff	-income statement -inventory record -budget -salary regulation	-income statement -tariff -yearly report	-income statement	-income statement -tariff -yearly report	-income statement -yearly report
Procedure	no method	-value of coins -book - keeping -circular tariff	-book-keeping -decentralisation	-book - keeping -regulation approach -bureau - cration	-book-keeping -internal agreement -production approach	-bookkeeping	-accounting -contract -government policy	-accounting -contract -business approach
Function	-evaluation -symbol of loyalty	-evaluation -decision making	-evaluation supporting military strategy	-planning -decision making	-planning -decision making	-planning -decision making	-decision making	-planning -decision making -reform
Problem	-measurement standard	-recession accounting	-orientation changing	-lacks of supporting facilities	-narrow minded on yearly report management	-dysfunction accounting ideological group	-establish accounting practice	lack of service
Authority	king	administrator	Military commander	government	management	ideological group	management	management
Institution	bendahara/i	government	Army	PTT	Djawatan PTT	Djawatan PTT	Perumtel	PT TELKO
Phenomena	failure of upeti	recession	Restructuring on military basis	salary regulation	domination of technical process	ideology conflicts	investment	privatisation
Impact of Phenomena	negative value	industry down	Spreading accounting	bad employees' economics	limited function of accounting	dying accounting	accounting development	standardisation of accounting
Valuation	uncertainty	rigid historical	Utilities	current accounting	historical	current price	-historical -contract -negotiation	-historical accounting
Field	-	cost accounting	Organisational control	contingency accounting	accounting policy	social accounting	management accounting	management accounting
Feature	social	technical	Military	moral support	technical	social	public service	-organisational -technology
Internal Change	-	become administration tools	Become a part of military strategy	become technical tools	become a support for production technique	dying process	supporting component	main component
External Factors	political	-marketing -colonialization	Military	-regulation -shortage condition (economic)	-political -international affairs	-politics -economics -ideology	-politics technology	-politics -economy -globalisation
Focus	control	revenue	Military	restoration	production technique	ideology conflicts	technology	reform

The first two forms were the types of reporting. The last one was the result of the accounting calculation. From those types of products, it can be assumed that financial accounting practice was applied first, followed by cost accounting practice.

The product became more complex and integrated after independence. Accounting played part in the budgeting and regulatory process. Besides that, the way to present the product itself had shifted to a yearly report. Those developments stopped in the guided democracy period. During the period at the end of the revolution, the only product was the income statement. This indicates that, in any situation, the profit and loss summary is always of interest. Under the new order, the accounting product was standardised as income statement and yearly report. In addition, tariff and other products were produced periodically, as determined by government or management.

The development of procedure depends on the form of product. All periods except the ancient kingdom period, use a bookkeeping method. The Dutch accounting system dominated the business practice for more than three hundred years. Besides that, the different contexts of each period induced an application of some specific and contextual procedures, such as bureaucratic and international agreements.

At the end of the revolutionary era, the ideological conflict took most of the management's concentration and energy, preventing development of the business, or, even, the work process, such as the accounting method. So, accounting was relegated to

standard bookkeeping. In the new order, accounting has been formally implemented as a recording method. Related to this, an accounting implementation is to support business contract and fulfil government requirements. This means that the New Order is dominated by a business approach, as a reflection of an economic notion.

The development of the accounting function could be classified into developments before and after independence. Before independence, valuation played a significant role in accounting. Accounting had to be able to provide information about the condition of *upeti*, equipment and cables. When the monopoly practice was stable, management used accounting in the decision making process. Later, it became a supporting tool for a military strategy. After independence, the telecommunication industry moved toward business orientation. Accounting had a share in planning, especially in the budgeting process, and in decision making, especially in cost accounting procedure and organisational reform.

The problems of accounting were unique in each period. They can be classified into technical, external factors and perspective. Technical problems existed in the ancient kingdom and Dutch colonisation periods. The external factors became inflation on accounting in the war of independence and guided democracy periods. Finally, the perspective classification covers the Japanese and Liberal Democracy periods. Most of the problems, except in the ancient kingdom period, were caused by the lack of understanding of accounting as a concept and a practice. Since only a few Indonesians have studied accounting seriously, especially in the telecommunication industry, this

problem has continued up to the 1990s. Thus, the basic problem of accounting in the telecommunication industry is human resources.

In relation to authority, accounting recognised social power, usually exercised by organisations or groups. In the period of Dutch colonisation, social power belonged to the administrators, so the authority for accounting development was in the hands of the administrators. The situation was similar in the Japanese period, except that it was the commanders who had the power. The guided democracy period was unique in that authority lay in the hands of informal ideological groups, whether nationalist, religious or communist, who imposed their will on management, including the accounting policy, creating a chaotic situation.

The phenomena and their impacts were unique for each period. Most of the events had negative impacts. It seems that, in the Pre-republic and Old Order periods, the notion of accounting was only to survive. However, in the New Order, these phenomena had a positive impact, especially on telecommunication growth. Investment and privatisation can be mentioned as reflecting the challenges of the 1970s - 1990s.

The internal change item in the table describes the perspective of the people in each period. Each period had its own challenges and unique organisational-environmental context. Thus, each period produced a unique change. What in the Dutch colonisation period was an administrative tool, for example, shifted to a military strategy in the Japanese Occupation. Though each period had its distinctive features, bookkeeping was

consistent as the way people used accounting. It produced the 'technical' dogma of the accounting nature. Under the New Order, this dogma continued. However, in the 1990s, people's perspective started changing towards a view of accounting as a main component in the organisation.

External factors had a share in supporting accounting in action. For example, in the ancient kingdom period, political factors dominated accounting practice, and while in the guided democracy period, ideology interfered with the organisational culture, making accounting unproductive. The external factors injected a relative characteristic into accounting.

The focus of analysis in each period was also distinctive. In the ancient kingdom, the focus was on control. The king used *upeti* to control the loyalty of the regions. In the Dutch East Indies, the government applied accounting to calculate the revenue. In the War of independence, the government used accounting for the restoration process. In the guided democracy, ideological conflict was the outstanding issue. However, in the New Order, the focus was set by government. In the early New Order period, technology became the focus, since the industry had to develop basic telecommunication facilities. In the 1990s, since telecommunication has become an important ingredient to face globalisation, the focus is on industrial reform, in order to be competitive with other telecommunication industries in other countries.

Conclusion

The discussion above has delivered some findings. First, political, authority and focus are the main factors that determine the role of accounting in telecommunication industry. Just as accounting had mediated some of the early crucial policy decisions, now accounting is itself subject to the implications of some of its own effects. In the Dutch era of colonisation, accounting authority was in the administrator's power. The government focused the business on the revenue only. This shifted accounting from a social to a technical feature. Accounting became an administrative tool. When the Japanese came, the government changed to a military style, placing the authority on the military commanders. In fact, the focus of all activities was on military strategy. Accounting became part of the military strategy.

Second, accounting finally reached its position as main component of business in the 1990s. This has been achieved produced by accounting standardisation and external demand. Accounting standardisation means that accounting practices and procedures have been set up, in order to develop auditable accounting products. External demand means that globalisation and government policy necessitated that accounting be a key aspect of the business process.

Third, the history of telecommunication was influenced by authority, government policy and people's need (compared to the first finding). In the Old Order, the focus of government and management was to keep Indonesia independent, so all telecommunication activities were directed toward the war of independence. During that

time, people supported the war and denied other activities. However, in the New Order, people's need was for cheap, user friendly and high capacity telecommunication services. The government, as a policy maker, made telecommunication one of its main programmes. This situation led to relatively high telecommunication growth.

Fourth, privatisation is a result of a government policy that aims to solve telecommunications problems. This means privatisation is not the result of an internal process, but of external forces. The external forces here can be defined as a government policy, which is directed by World Bank and global competition. In this case, the economic interest has given rise to a political policy to formulate the privatisation programme.

Fifth, the role of accounting can support the privatisation programme, in order to obtain an advantageous position in industry. This means that accounting can be a tool to evaluate the programme.

Sixth, referring to Chapter Four, accounting role in Indonesian telecommunication is still at the 1930s level, i.e. accounting for stewardship. Even though in the end of 1980s, accounting grew to support organisational and industrial reform, accounting's potential has not been fully explored.

5.7 Summary

1. A legitimisation of accounting's support on a privatisation action can be interpreted as a legitimisation of the accounting role and the privatisation action in the telecommunication industry.
2. The Critical Review of Telecommunication History is the outcome of combining the research perspective, research question and research objective, in order to analyse a telecommunication history.
3. Telecommunication History can be reviewed from an accounting point of view and classified into political periodic.
4. Factors in the Role of Accounting in Indonesian telecommunication industry are:
form, procedure, function, problem, authority, institution, phenomena, impact, valuation, field, feature, internal change, external factors and focus

5. Political periods in telecommunication history can be classified as:
 - a. Pre - Republic: Ancient Kingdom, Dutch Colonialism and Japanese Colonialism
 - b. Old Order : War of Independence, Liberal Democracy and Guided Democracy
 - c. New Order : Before 1981 and After 1981
6. Government / management policy, authority and focus of activities are recognised as the main factors influencing telecommunication's development and the role of accounting.

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^{xli} Mustofa, Bc.T.T, Catatan Pribadi mengenai saat - saat yang saya alami pada masa perjuangan kemerdekaan pada tanggal 17 - 8 - 1945 s/d akhir December 1950

^{xlii} Armansjah, Pemaparan pekerjaan dan pengalaman pada masa: 1. Periode selama Pendudukan Jepang; 2. Periode Perang Kemerdekaan RI Bukit Tinggi, 31 -10 - 1979

^{xliii} *ibid.*

^{xliv} Directorate General Post and Telecommunications, 1982, History of Posts and Telecommunications in Indonesia, vol.2

^{xlv} *ibid.*

^{xlvi} Dijar, R, KPOS, 'Mengenangkan Ulang Tahun ke - 6 PTT Republik Indonesia, Madjalah PTT Indonesia, No. 1, Tahun ke 1, 1 January 1952.

^{xlvii} Permoesjawaratan Dinas antara Pimpinan Tjabang Poesat Soematera dengan Kepala - Kepala Daerah. Dari tanggal 23 / 7 sampai 27 / 7 - 1946 di Boekittinggi.

^{xlviii} Armansjah, Pemaparan pekerjaan dan pengalaman pada masa: 1. Periode selama pendudukan jepang; 2. Periode Perang Kemerdekaan RI, Bukittinggi, 31 - 10 -1979

^{xliv} Sartono Kartodirdjo, Marwati Djoened Poesponegoro, Nugroho Notosusanto, Sejarah Nasional Indonesia, Jilid VI, Jakarta, Balai Pustaka, 1977

ⁱ *ibid.*

^{li} Directorate General of Posts and Telecommunications, 1982, History of Posts and Telecommunications, v.3

^{lii} Jawatan Post Telegrap Telepon Indonesia, Laporan Tahun: 1951 - 1952

^{liii} *ibid.*

^{liv} Jawatan Post Telegraf Telephone Indonesia, Laporan Tahunan, 1953

^{lv} Jawatan Post Telegraf Telephone Indonesia, Laporan Tahunan, 1954

^{lvi} Jawatan Pos Telegrap Telepon Republik Indonesia, Laporan Tahun, 1955

^{lvii} Jawatan Pos Telegrap Telepon Republik Indonesia, Laporan Tahun, 1958

^{lviii} *ibid.*

^{lix} Directorate General Post and Telecommunications, 1982, History of Post and Telecommunications, v.3

^{lx} Jawatan Post Telegrap Telepon Indonesia, Laporan Tahun 1951-1952

^{lxi} Jawatan Pos Telegrap Telepon Republik Indonesia, Laporan Tahun 1956

^{lxii} Suryadarma, Laksamana Purnawirawan, Alm., 'Sejarah POSTEL', Merpati Pos, No.11, tahun 8, Nopember 1974

^{lxiii} Jawatan Post Telegrap Telephone Indonesia, Laporan Tahun 1954

^{lxiv} Sartono Kartodirdjo, Marwati Djoened Poesponegoro, Nugroho Notosusanto, Sejarah Nasional Indonesia, jilid VI, Jakarta, Balai Pustaka, 1977

^{lxv} Suryadarma, Laksamana Purnawirawan, Alm., 'Sejarah POSTEL', Merpati Pos, No.11, tahun 8, Nopember 1974

^{lxvi} Suryadarma, Laksamana Purnawirawan, Alm., "Sejarah POSTEL", Merpati Pos, No. 11, tahun 8, Nopember 1974

^{lxvii} PN POSTEL, "PN POSTEL Dalam Periode Pancawarsa Manipol," 1954 - 1964

^{lxviii} *ibid.*

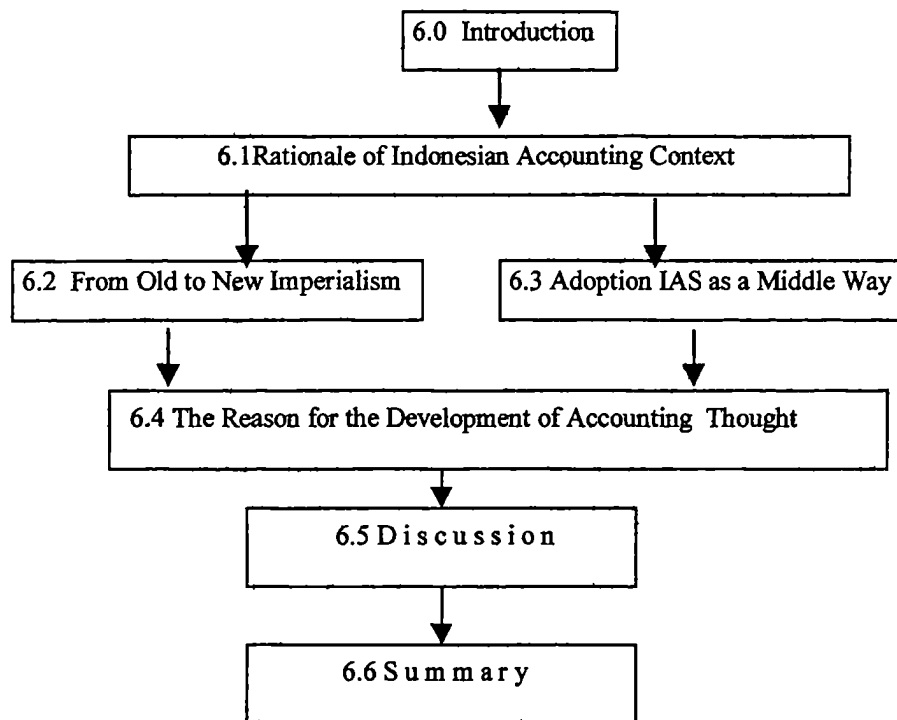
CHAPTER SIX CONTEMPORARY STAGE OF INDONESIAN ACCOUNTING

6.0 Introduction

In the previous chapters, the role of accounting has been explored in terms of its theoretical and industrial context. A deep knowledge of accounting role terminology is needed to investigate industrial practice. However, it seems that the development of accounting in the telecommunication industry cannot be distinguished from an accounting progress at the national level.

The development of Indonesian accounting is closely related to national political, economic, social and technological development. This relationship determines the structure of the chapter. As a starting point, a rationale for a point of view on Indonesian accounting will be given in section 6.1. Since the development of Indonesian accounting will be analysed from a historical point of view, the subsequent sections will be on the Dutch, American and IASC frameworks. However, the discussion will not reflect the contemporary status of Indonesian accounting. For this reason, a specific discussion of recent development in accounting thought in Indonesia is needed (Section 6.4). After a discussion which links accounting thought and orientation, Section 6.6 will summarise the achievement of this chapter. Below is the structure of the chapter.

Figure 6.1
Structure of Chapter Six



This structure has certain implications. First, literature will be critically reviewed. Second, since history is quite powerful as a context of descriptions, this chapter takes a historical event approach to structure the chapter's sections. Finally, the ideas of the chapter are structured based on the recent condition of Indonesian accounting. This means that a limitation is placed on this chapter by the uncertain formulation of an accounting framework in Indonesia.

6.1 Rationale for Indonesian Accounting Context

This section begins with the question why it is necessary to discuss the Indonesian accounting context, i.e. why this chapter is necessary. The study, 'An accounting appraisal of the privatization decision: a case study of Indonesia's telecommunication

Industry', embraces three essentially related topics: privatization, the telecommunication industry and the role of accounting. All these topics have been supported by a specific discussion in previous chapters. However, one factor which is essential to political economy research should be considered: cultural context. This implies that the research topic could be global and/or national in scope. Privatisation is more a global topic. The scope of the second topic, telecommunication, is more national, i.e. Indonesian. Finally, the third topic, the role of accounting, is considered to be a mediator between the global and Indonesian contexts. In theory, it should be explored as a global phenomenon, which means understanding accounting in other countries and developing a theory of accounting role. In practice, it should be related to Indonesian accounting which is recognised as the determinant of accounting practice in Indonesia.

When starting to explore Indonesian accounting, it is necessary to be realistic. Indonesian accounting has been developed only in few years. Some routine activities, such as congress and teaching assessment, have been established. With regard to standardisation, some basic standards of accounting practices have been formulated, such as financial reporting standards and auditing standards. However, since this is quite a new development, those practices have not yet been institutionalised. Thus, Indonesian accounting can not be described in terms of development.

If Indonesian accounting had been in a nearly mature stage, a classification of knowledge development could have been used. In general, knowledge can be grouped according to main actor, school of thought and network. The main actor here is the most influential

person that influences the development of accounting in a certain period, especially in terms of organisation, knowledge, standard or accounting practices. Examples are the influence of Paton and Littleton on the US accounting framework (Kam,1990).

The accounting school of thought refers to a dominant or new approach to addressing accounting problems. In the US, the Accounting Review journal is a symbol of positive accounting, which utilises a quantitative approach, such as modelling, econometric and other functional tools. The journal, Accounting, Organisation and Society in the UK represents the critical perspective, which utilises a qualitative approach. Many management accounting articles are interpretative ones. These three schools of thought could be divided into many branches. Each school of thought has followers who are recognised as defenders of their group and opponents of other ways of thinking. In this respect, in Indonesia, there is still a lack of research interest, so schools of thought and their adherents cannot be clearly identified.

A network or interest group refers to a political group in the accounting profession. College or university graduates are recognised as the most solid group in business and government. However, in accounting, the network is not clear yet. Since the research orientation and profession are not fully developed, networks cannot be distinguished clearly. Some accountants have tried to classify interest groups into three: educational accountants, public accountants and others. Since, in reality, however, accountants are often members of more than one group, having two even three, jobs, the classification does not work.

At this stage, for the exploration of Indonesian accounting, we can turn to another possible choice. Since a discussion of theoretical development is quite difficult, a possible alternative is to structure the discussion according to accounting orientation, which reflects accounting history and the development of accounting standards. Accounting orientation is about the tendency of the Indonesian accounting toward a particular system, which could be that of another country, international institution or neither. The objective of studying accounting orientation is usually to understand the direction of Indonesian accounting development, in order to evaluate its progress. In the history of Indonesian accounting, foreign orientations were towards the Dutch and United States systems. The international orientation is reflected in adoption of the framework of the International Accounting Standard Committee (IASB). No orientation means self-sufficient Indonesian accounting, which is the ultimate aim of the development of Indonesian accounting.

The exploration of accounting orientation is similar to an exploration of accounting history in Indonesia. Since history involves political, economic, social and cultural aspects, our analysis of accounting orientation will include those complex aspects. In the next sections, the history of Indonesian accounting from Dutch colonialism to the IAS will be discussed critically, especially related to accounting orientation.

In view of the purpose of this chapter, however, a discussion of accounting orientation is not sufficient. History only indicates the stage which current Indonesian accounting has reached. It is about the transaction from past to present. An additional discussion is

needed, to cover the move from present to future. In this respect, behind accounting orientation is knowledge to select, choose and decide. Knowledge of accounting can be represented by articles, books and conferences. In this study, the proceeding of the Indonesian Accounting Association are taken as representing the development of thought. For this study, two recent conferences, 1994 and 1996, are selected as knowledge resources.

The match between knowledge and history brings us to the contemporary stage of Indonesian accounting, in which our integrated tasks are to understand the past, to see the current situation and to learn future possibilities are integrated linkage of contemporary stage. Within this contemporary position, the aim is to attempt to draw conclusion on the accounting role. This investigation will be based on the discussion of previous chapters and clarify the linkage among the literature review chapters.

6.2 From Old to New Imperialism

The aim of this section is to obtain a complete picture of Indonesian accounting's orientation. To reach this objective necessitates a clear method that investigates directly Dutch and US practices. Accounting practice can be described in terms of standards, curriculum and significant events on practice. A comparison between those aspects of Dutch and US practices will enable us to understand the development of accounting characteristic. Below, a critical exploration will be begun with Dutch and US practices.

Dutch Practices

The history of formal Indonesian accounting began with the first recorded accounting regulation in 1642. That regulation was issued by Dutch Governor General of the Netherlands East Indies, in order to administer cash receipts, receivables and budget for garrisons and ship dockages in Batavia and Soerabaja (Sapi'ie,1980). Those activities were closely related to agricultural business, such as rubber, palm, oil, copra, coffee, tea, tobacco, pepper and sugar.

In the eighteenth century, a period of industrialisation was brought to Indonesia, in order to extend Dutch trading to an international level. This ambition affected business management and administration, and also the information needed by the investors in the Netherlands. Such needs grew alongside the development of bookkeeping (accountancy) in Europe and Western countries. As Indonesia was a Dutch colony, its bookkeeping was on the Dutch accounting model (Quentin,1987).

Bookkeeping was first taught in Indonesian High Schools and Special Schools, such as Handelschool or the Middelbare Handelschool (schools specialising in trade and commerce) (Abdoelkadir,1982,p.29). Besides that, informal tuition in bookkeeping was given after office hours by Dutchmen who worked for the Tax Office, the Audit Office or the Treasury. This tuition was given in Dutch, using Dutch bookkeeping textbooks (Yunus, 1988).

On 25th March, 1925 in Semarang (Central Java) the 'Bond van Vereniging voor

Handel Onderwijs' (Trade Teacher Association) was established. The aim of this institution was to promote the training of bookkeepers outside formal school. The courses were classified as Bond A and Bond B. The Bond set a uniform exam and issued graduate certificates. Most graduates worked in modern administrations at estates and sugar mills, insurance companies, and as professional bookkeepers and accountants. Modern administration or 'Moderne Administratie' was defined as:

- 1. The recording of the components of capital, determination of net income, and financial position of an enterprise*
 - 2. The provision of information for budgetary and control purposes*
 - 3. The determination of product cost.*
- (from: Hadibroto, 1962, 1975, p. 47)*

The increasing demands of work gave rise to a need to expand the Bond A and Bond B courses. The 'Moderne Bedrijfs Administratie' was a continuation course with much more emphasis on the subjects of cost and management accounting. The structure of the bookkeeping courses produced an exclusive registered accountant with membership of the Dutch Institute.

In the Japanese period, the training system was developed into four different courses:

- 1. Course A, for the post of Assistant Inspector for the Ministry of Finance.*
 - 2. Course B, for tax controllers (B-1) and tax officers (B-2).*
 - 3. Course C, for assistant accountants.*
 - 4. Course D, for bookkeepers.*
- (from Yunus, 1990, p. 13)*

The development of the training system was continued after independence with the introduction of the MBA (Moderne Bedrijfs Administratie) programme, which combined cost accounting and an advanced accounting curriculum (Abdoelkadir, 1982, p. 32). The

examination for MBA included:

- a. Business Economics:*
 - I. Some knowledge of economics and business economics in general*
 - II. Knowledge of organisation theory, cost-price theory, finance and balance of payments theory*
- b. Business Administration (Dutch: Bedrijfs Administratie):*
 - I. Some knowledge of the most important administrative methods and techniques*
 - II. Knowledge of the decimal accounts system*
 - III. Some knowledge of the method of collecting data to be used in an account*
 - IV. Knowledge and skill in applying the common method for classifying and assigning costs*
 - V. Knowledge of report construction*
- c. Business Statistics*
- d. Business Mathematics*
- e. Fiscal Law*

Source: Hadibroto (1962,1975,p.234)

During the war of independence, the first accounting education institution was established, offering a Middelbaar Onderwijs (MO) course. The curriculum included: bookkeeping and accounting theory, business management, commercial law, business mathematics and statistics. However, the Dutch influence still continued. Later on, the University of Indonesia, in 1955, started to offer accounting courses under the supervision of a Dutch professor (Briston,1978). In 1957, a school was established to train accountants to work for the Ministry under the name 'Sekolah Tinggi Ilmu Keuangan Negara' (STIKN).

All accountancy higher education implemented the original Dutch concept with its orientation towards economics and business economics, and for those purposes translated Dutch accounting text were used. The Dutch influence was began to be reduced in the

mid nineteen sixties, although some of those influences remain, especially in governmental accounting. Indonesian governmental accounting is comprised of :

1. Government financial administration, i.e. the governmental financial recording, control and auditing.
2. The budgeting process
3. Tax administration and policy

The system is based on the former Dutch methods which, unfortunately, have not been adequately updated in Indonesia. The 'Kameraal Stelsel' and 'Comptabiliteits Wet' of 1925 are still implemented, with some modification (Yunus,1988).

American Influences

The first signs of the end of Dutch influence came in Hadibroto's thesis, 'A Comparative Study of American and Dutch Accountancy and Their Impact on the Profession in Indonesia'. Hadibroto suggested that the accounting profession in Indonesia should change its orientation to the American system. Some important findings can be mentioned here:

In general it can be recommended that the AICPA activities in issuing Accounting Bulletins might be copied in Indonesia. If necessary, the government might take an active part in shaping and supporting such standards

Knowledge of both American and Dutch bookkeeping techniques is necessary before the Indonesian accountant can audit adequately. The historical acceptance of Dutch bookkeeping, which is still being taught by many educational institutions, requires the Indonesian accountant to be acquainted with this system.

Most of Hadibroto's findings were open to question. However, their influence had a tremendous effect on accounting education, professional accounting practices, and some

government regulations concerning accounting, auditing and taxation. Briston (1978) stated that enormous philosophical changes took place which almost totally substituted American for Dutch accounting principles. In addition, such factors as multinationals, international accounting firms, US aid and language factor produced university courses oriented strongly toward American text and emphases upon finance and management.

In respect of accounting standards, the influence of America was absolute. Indonesian accounting translated the Inventory of General Accounting Principles (by Paul Grady) to create the Indonesian Accounting Principles (Prinsip Akuntansi Indonesia) - 1973. The principles were rapidly accepted by the business community, bankers, financial analysts, domestic and foreign investors, and the government. However, since other culture products caused a need to revise the old principles, the standards were replaced by the Indonesian Accounting Principles of 1984, which were translated from APB No.4 - Basic Concept of Financial Statement for Business Enterprise. Both standards were limited to matters relating to financial accounting. Besides that, they did not regulate all accounting practices in Indonesia. This situation necessitated more industrial standards for accounting.

The American influence became stronger with the operation of the capital market. One of the requirements for listing was the production of standard financial reporting, in line with SEC - USA. These requirements received a special boost from government and other international institutions in Indonesia. As a result, accounting in business practice and its philosophy moved toward the American system (Briston, 1978, p.112-113).

Comparison Impact of American and Dutch Orientation

The purpose of this section is to investigate the impact of accounting orientation. In the case of Indonesia, orientation has tremendously influenced all aspects of accounting, whether conceptual or practical. At the conceptual level, the influence can be described as theoretical, related to main concepts, application, main users, education, professional institutions and research dissemination. At the practical level, a list to search orientation influences can be considered in terms of advantages and disadvantages. Both aspects supplement each other, to produce an integrated picture of accounting orientation.

Indonesia has experienced two foreign accounting systems: the Dutch and US orientations (Briston, et.al,1987). In this section, the comparison will focus on their impact, rather than the accounting systems themselves. This is because of the different periods covered by the two accounting orientations: Dutch, .. - 1967 and US, 1967 - 1995. If the focus were on the accounting systems, the comparison would produce a bias of time difference. By placing the focus on impact, the comparison reflects accounting practice at different times. In this case, a comparison of the influence of conceptual and practical aspects will be suitable for the study.

The influence of the Dutch orientation was mainly on administration, in terms of effective and complete recording in government and manufacturing works. This condition was created by the Netherlands Indies Government, which monopolised the authority of social and business development. The officials' work was subject to the colonial trading interest, which was to exploit Indonesian natural resources and export

them to European countries. In this case, the colonial government needed an auditable manufacture administration. So, accounting was mainly developed in governmental accounting. Achieving a sustainable administration of the desired quality needed a progressive education and law enforcement to keep discipline. However, since colonialism was the main context for the Dutch orientation, only a few Indonesians were allowed to study accounting (Directorate General of Posts & Telecommunication,1982).

On the other hand, the United States' influence was mainly on market behaviour, dominated by positive analysis in the business sector. The business manager produced accounting reports according to professional accounting standards, which were legitimised by Indonesian Accountant Association. The professional institution promoted the development of Indonesian accounting through publications and conferences. This gave positive support to progressive management in private business. However, since the Dutch influence could not be eliminated, dualism in accounting practice existed (CAAD,1986). Besides that, the focus on manufacturing accounting remained, as did law enforcement. In this case, the strong influence of US accounting was supported by a political turn towards the U.S., by foreign investment policy - 1967 and by international firms in Indonesia.

Table 6.1
Comparison of Dutch and US Orientations

	Dutch	United States
Theoretical Area	Administration	Behaviour
Main Stream	Recording	Positive Analysis
Application	Government Manufacturing	Business
Users	Officers	Managers
Teaching	Secondary School University	Secondary School University
Professional Institution	Netherlands Indies Government	Indonesian Accountant Association
Research Dissemination	-	Publication Conferences
Factors on Implementation	Colonialism Trading	Political turning International Firm Foreign Investment
Positive Impact	Manufacture Administration Education Governmental Accounting Law Enforcement	Progressive Management Private business
Negative Impact	Few Indonesian's Expert Political interference	Lack of law enforcement Dualism Less focus on production

The Dutch and US orientations are compared in Table 7.1. The Dutch emphasis was on the past to current stage of management, indicated by the focus on administration. This means accounting in the Dutch system was only a tool for the government. The main notions were discipline and efficiency. On the other hand, the US focused on the present to future stage, which made accounting a symbol of power. In other words, accounting was used to legitimise power. In this case, creativity and professionalism became dominant factors in developing accounting.

Despite these differences, similarities between the Dutch and US orientations can be found. Neither orientations seriously addressed Indonesian interest. This is natural, since each system was created to serve the economic activity in its own society. The Dutch

system was created to serve the colonial interest, while the US system served the US Free Trade interest. In this case, Indonesian accounting served Dutch and US interests. In other words, the Dutch and US accounting systems colonised Indonesian accounting. This means the move from the Dutch to the US orientation was like the move from old to new imperialism. So, the Indonesian Accountant Association's decision to move to IAS was one step forward towards covering Indonesian interest.

6.3 Adoption of International Accounting Standards as a Middle Way

In 1994, Indonesia changed its orientation to the International Standard Accounting Committee, based in London, United Kingdom. This change was symbolised by the announcement of Financial Accounting Standards - Standar Akuntansi Keuangan (SAK), adopted from the International Accounting Standards (IAI, 1994). In this section, the aim is to explore IAS and their contribution to Indonesian accounting, which means an investigation of the reason for adopting International Accounting Standards and analysis of SAK.

Analysis of Adoption Policy

The decision to legitimate SAK was taken at the 7th Congress of the Indonesian Accountant Association (Ikatan Akuntan Indonesia - IAI). The Committee of Accounting Standards never published any official statement regarding the adoption of International Accounting Standards. The only comment made which appears to refer to this change was :

Mengingat dinamika bisnis, perkembangan pasar modal dan globalisasi usaha, maka diusulkan agar dilakukan pemutakhiran (updating) terhadap Standar Akuntansi Keuangan dengan tuntutan perkembangan dunia usaha.

translate:

Concerning business dynamics, the development of capital market and business globalisation, it is proposed to update Financial Accounting Standard (SAK), in order to fulfil all business progress.

Source: Kesimpulan Sidang Komisi A - SAK, Proceeding Kongres IAI VII, 1994, Halaman 78

Besides a memorandum from the panel discussion of the IAI Congress, the reason for adopting the policy can be found in the Opening Speech of the 7th IAI Congress.

... resolusi dari International Organisation of Securities Commission (IOSCO) yang mengharuskan diterapkannya International Accounting & Auditing Standards bagi perusahaan yang akan menawarkan efek ke pasar international.

translation:

... resolution from International Organisation of Securities Commission (IOSCO) require an implementation of International Accounting & Auditing Standards for any corporations who offer their assets on the international market.

Source: Bacelius Ruru, GATT dan Kesiapan Mutu Jasa Profesi di Indonesia, Proceeding Konggres IAI VII, 1994,p.42

These two quotations highlight three factors in the adoption policy: the development of the capital market, business globalisation, and the requirements of the International Organisation of Securities Commission. Below, the discussion will explore each factor, in order to understand the expectations of IAS.

The Development of Capital Market

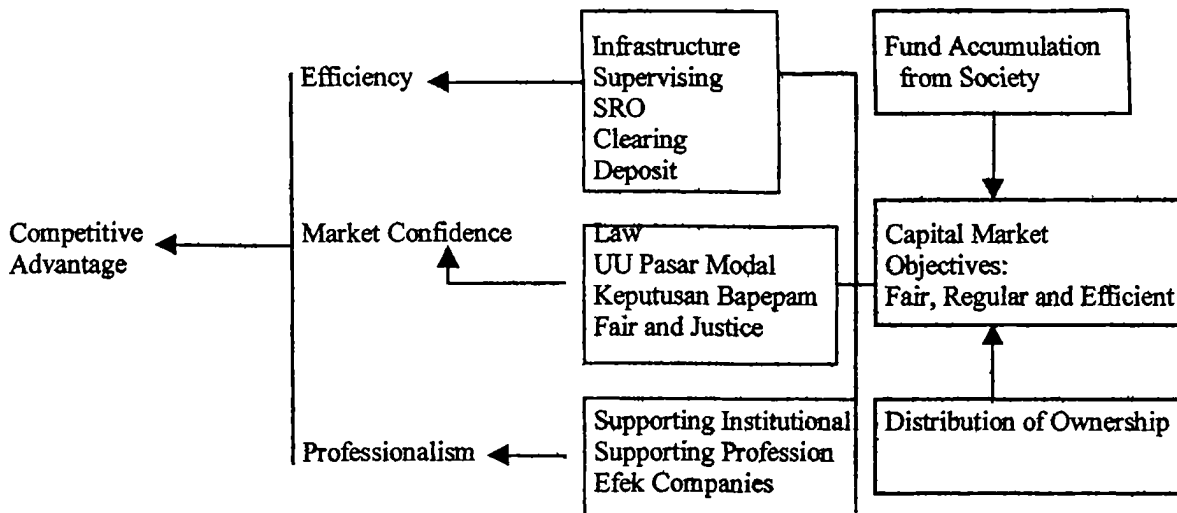
The capital market of Indonesia has been recognised as one of the fastest growing emerging capital markets. When it started in 1977, the capital market was characterised as slow with limited offer. This condition was changed in 1989. During 1989-1990, the

need of foreign investment and the rapid growth of investment caused a big jump in the number of capital market activities. Price on the Jakarta Stock Exchange rose by 148% in only 18 months. However, this progressive growth was followed by 67% price reduction in less than one year.

Since 1989, the increasing activities of the capital market have contributed to the development of the national economy (Suta,1996). The number of listed companies increased from 25 companies in 1988 to 285 companies in 1996, with an emission value of Rp 52,9 trillion. Trade volume reached Rp. 174 trillion. In Jakarta Stock Exchange, the trade volume was 15.529.302,742 shares with Rp 43.363,0 milyar. In Surabaya Stock Exchange, the trade volume was 661.651,028 shares with Rp 1.711,2 milyar.

The above data confirm the influence of accounting in the development of the capital market. Next, we will explore the influence of capital market development on accounting. The first step is to understand the direction of capital market. Below is a schematic representation of the development of the capital market.

Figure 6.2
The Objective of the Indonesian Capital Market



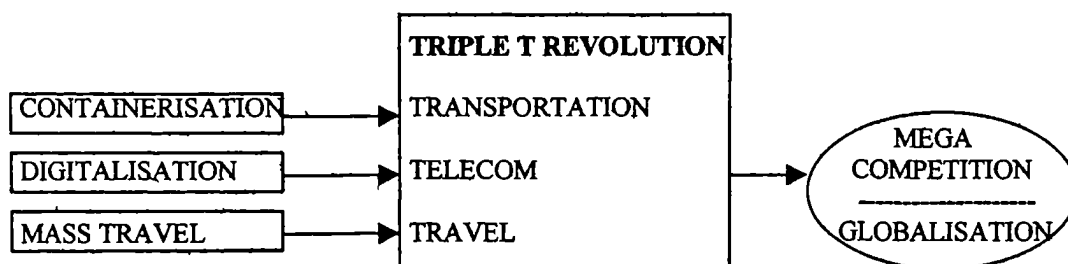
As an emerging capital market, Indonesia still has to develop three capital market values: efficiency, market confidence and professionalism. These values are supported by accounting. This means that the development of the capital market should be followed by an increase of accounting quality. Accounting quality can be interpreted as valid managerial techniques in financial transaction, applicable regulations and reliable profession. Effective managerial techniques will produce increasing efficiency in the capital market. Applicable regulation will support the implementation of accounting procedure and law in capital market practice. A reliable profession means a high standard of accountants' work and product. Since many businesses are involved in the capital market, there is a great stimulus for development of all aspects of the accounting profession.

In the future of the Indonesian capital market, the emphasis in accounting will shift from stewardship to independence and integrity. Independence means how accountants can freely disclose their work to the community, while integrity is about how accountants can disclose their work to a modern and professional standard. Both independence and integrity are examined, especially in a litigation situation. So, accounting quality can be interpreted as how accounting survives in a litigation community.

Business Globalisation

The globalisation of business is characterised by a paradigm shift, caused by borderless and timelessness of economic transactions, leading to increased interdependence among international trade, international finance and international service. The paradigm shift can be interpreted as the 'Triple T Revolution'. The first T is Transportation; as transportation cost is reduced, location becomes a less important factor. The second T is Telecom; since the lower cost telecommunication provides an increase in communication capability, the value of time has become more precise (in minutes, even in seconds). The third T, Travel, has increased global awareness. Since travel costs are decreased, people can travel worldwide more easily than in the 1980s.

Figure 6.3
Globalisation Process



Related to accounting, the Triple T Revolution has brought a new era for professional services. Accounting relies heavily on skill and talent. This means accounting will always face a problem of Human Resources Development. Besides that, the Triple T Revolution means that the accounting process involves much technology and remote delivery capacity. This means accounting should deliver the best, customised and on time, at a competitive price. In other words, the society demands intensive information from the accounting product, intensive knowledge from the accountant as producer, and activities to increase the accounting service.

GATS (General Agreement on Trade in Services)

Related to mega competition, the World Trade Organisations has issued General Agreement on Tariffs and Trade (GATT). This agreement has affected accounting through the General Agreement on Trade in Services (GATS). The aim is to create a fair, liberal and stable trading among countries. Both agreements contain rules on Cross Border Movement of Services, Cross Border Movement of Consumers and Cross Border Movement of Factors of Production.

Cross Border Movement of Services increases the access of Indonesian accountants to foreign countries and increases service competition in the international market. Cross Border Movement of Consumers signals an enlarging service market share at the international level. This required more service producers and, at the same time, government aid for producers should be eliminated. Cross Border Movement of Factors

of Production refers to an elimination of barriers to investment flow among countries. This means a free market for domestic investors. Besides that, foreign direct investment and capital inflow in the capital market will be allowed as investment opportunities.

The GATS has created both opportunities and threats for the accounting profession. The threats are the loss of market share; lack of professionalism; new business and legal environment; and disputes. According to GATS, foreign public accounting should be allowed to enter the Indonesian market. The competition will become stronger and tied. Since the lack of professionalism is still characteristic of Indonesian accountants, competitive advantage remains questionable. A new business and legal environment are needed. In this case, a litigation culture will be established, soon after the three other threats are overcome. Besides threats, however, opportunities can be identified, namely, the increase of quality standards of accounting work, such as an implementation of the IOSCO rule to any Indonesian companies which offer their products in the international market. This fact encouraged Indonesian accountants to 'go international'.

The forces behind the adoption policy can be classified into external and internal forces. The external forces are from globalisation and GATS. The internal forces are from capital market development. According to the development of accounting orientation, this adoption covered an Indonesian interest in international business. Even though the Free - Trade interest of Western countries can still not be eliminated in Indonesia, Indonesia's interest in competition is promoted.

At this stage, the Indonesian interest in accounting should be clarified. The main interest is to support the Indonesian economy toward Pasal 33, UUD 1945, State Constitution, which mentioned

Economy is managed based on a social economy system

Underlying this statement, is the fact that the Indonesian economy has an ethic based on Pancasila, the State Ideology. Besides that, the economic movement should support the ultimate purpose of Long-Term National Development:

Social Justice for All Indonesian People

The Indonesian interest can be interpreted as an interest in the social welfare of the Indonesian people. In the Dutch orientation, the interest was in the Dutch government. In the USA orientation, the interest was that of the economy, namely Free Trade for international business. In IAS, the Indonesian interest was included in terms of international capital market transaction. This means that accounting for non international capital markets was beyond the IAS context. In this case, the accounting profession should establish a system that covers all aspects of Indonesian business whether at the domestic or international levels’.

SAK (Financial Accounting Standard)

The development of the Financial Accounting Standards (SAK) - 1994 was influenced by situational factors, such as the capital market and globalisation. Some supplements to the Standards should be developed, such as Interpretation of Financial Accounting Standards and Accounting Dictionary. In IAI Congress VII - 1994, some important steps have been

taken in the direction of Financial Accounting Standards:

- towards Capital Market transactions: Convertible Bonds, Waranty, Option, and Depository Receipt.
- towards the development of private business.

This means that SAKs do not intend to develop public sector accounting, which includes government and state-owned companies. The next evidence comes from the IAS' Concept of accounting qualities. The concept is similar to the concept of hierarchy of accounting qualities from SFAC No.2 Qualitative Characteristics of Accounting Information. The concept is based on materiality and benefit > cost concepts which are contrary to the public enterprise mission of supporting the social welfare for all people in the community. The words 'all people' eliminate the possibility of materiality measurement. Besides that, the measurement of progress in social welfare progress is based not only on economic calculation (benefit > cost), but also on non-economic criteria. This means that the IAS concept on accounting quality intended to deny the public sector.

Currently the Statements of Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan - PSAK) are comprised of 25 standards for general rules of financial reporting and 10 standards for specific rules of industry. In the general rules, the standards mainly concern how to measure and recognise transaction events, for example: foreign currency transactions, accounting for investment, depreciation

accounting, research and development, and intangible. The standards usually deliver some alternative approaches to recognition and promote specific measurement methods.

In the industrial rules, the standards are designed to support industrial development, for example: to support co-operative (*koperasi*) form with a specific financial reporting structure, and telecommunication reform with a rule to recognising Profit Sharing. The standards are issued to serve for special events in a certain policy context which impact on a limited function. In this case, the standards are legitimisation tools for the policy maker.

Most of those Statements of Financial Accounting Standards are derived from the US GAAP, the UK GAAP, or IAS. The intention behind this policy is to have a starting point for the development of the standards. Despite their advantages, the standards have sometimes failed to reflect Indonesian accounting practices. For example, they do not deal with property accounting, something which is needed for the booming property business in Indonesia. In addition, accounting standards are actually needed in agriculture, farming, property and financial transfer. However, the standard setters' work is determined by funding availability and authority negotiation. So, because of privatisation's standard setters, the development of standards is mostly influenced by economic and political factors.

The variety of sources of translation of standards has produced inconsistency in the form of SAK . The difference is evident in the sequence of each part of standards and

numbering inside standards. This makes it difficult to read standards and compare them. Besides that, the standards seem to be fragmented. In this case, the uniformity of standard format should be stated explicitly as a guide for the Standard Setting Committee.

In our observation, SAK is not the only guidance currently applicable to accounting work in Indonesia. Some other resources are still needed from the Indonesian Central Bank, Dutch and Japanese Law, and other government institutions (Yunus,1989). If matters are not regulated by SAKs, other sources will be followed, as long as they do not conflict with Indonesian Law. This condition should be explicitly stated in the Preliminary part of SAK.

6.4. The Recent Development of Accounting Thought

In previous sections, the development of accounting orientation has been investigated to understand the development of accounting practice. In this section, we explore the knowledge behind the policy making, represented by the articles of the Indonesian Accounting Association (Ikatan Akuntan Indonesia- IAI) 's 1994 and 1996 National Congress.

In this section, an understanding of the contemporary state of knowledge is developed. First, from the literature review, the development of accounting knowledge can be identified in terms of:

- a. Orientation, which represents the sources of accounting system in the article, whether
 - 1)Dutch, 2)USA, 3)IASC or 4)others

- b. Theory classification, which reflects the mainstream thought in the article, whether
 - 1)positive, 2)interpretive, or 3)critical
- c. Article format, which concerns the way the topic is presented, whether 1)descriptive,
 - 2)interpretative, or 3)analytical
- d. Time shows the period of the topic, whether 1)past, 2)present or 3)future
- e. Scope shows the scope of the topic, whether 1)accounting, 2)management, 3)industry
 - or 4)government
- f. Roles of Accounting represents the perspective of the article on accounting's function,
 - whether 1)recording, 2)decision making, or 3)prediction
- g. Context represents the scope of the articles topic, whether 1)domestic or
 - 2)international
- h. New Idea represents the impact of the topic on accounting, whether in 1)accounting as
 - a field, 2)accounting in organisational stage, or 3)accounting as a social phenomenon
- i. Area shows the contribution of the new idea, whether to 1)capital market,
 - 2)management, 3)accounting or 4)globalisation

The nine criteria above show the direction of accounting thought and its characteristics. From a theoretical standpoint, the criteria concern the direction of accounting, theoretical background, assumptions as to the accounting function, and level of analysis. In relation to practical aspects, periodical context, area of discussion, and scope of discussion are investigated. Related to the new idea contribution, the scope of impact and area of the idea are mentioned as barometers for the development of thought. Below, the articles are classified based on these nine criteria.

Table 6.2
Classification of Articles on IAI Congress
1994 & 1996

Criteria	Choice 1	Choice 2	Choice 3	Choice 4
Orientation	0%	38%	27%	35%
Classification Theory	16%	43%	14%	
Form	57%	22%	22%	
Timing	30%	46%	24%	
Scope	70%	11%	11%	8%
Roles of Accounting	70%	22%	8%	
Context	89%	11%		
New Ideas	54%	35%	11%	
Area of New Idea	5%	16%	68%	11%

The orientation of Indonesian accounting has left Dutch accounting, but still been dominated by USA. Since the USA and IASC interest are still overlapping, the influence of IASC is growing very fast. On the other hand, the need for Indonesia to have its own orientation has been increased. Those outputs show the adoption of IASC as a strategic decision.

The preferred mainstream theory is interpretive, which means a domination of management accounting thoughts (Scapens et.al,1992) and an understanding of the facts. Because of business development and the tremendous number of corporate cases, the domination of management accounting is quite a common phenomenon. Related to management accounting, the case studies and problem-solving characteristic are developed, such as understanding the facts.

The descriptive form of article is preferred. This means that Indonesian accounting

studies are still dominated by explaining events. Since library and field researches are still behind, interpretative and analytical reviews of accounting are lacking. This condition indicates that Indonesia is not ready to develop its own accounting system, but only able to react by accepting other systems.

In terms of practical criteria, Indonesian accounting is characterised as assuming that accounting is a recording tool and discussing present - domestic accounting as a separate entity. These characteristics produce an image of bookkeeping and a narrow perspective. This means that the development of thought has not reached the stage where accounting is viewed as a decision making tool and international cases promoted in Indonesian studies.

Related to new ideas, most innovations are still concerned with accounting as an entity. These conditions have led to faster development of accounting procedure and policy. However, the development of accounting's function is lagging behind. Here, the challenge for the accounting profession is to promote more creativity in thinking about capital market practice and the globalisation of business, in order to develop the role of accounting.

The condition of Indonesian accounting can not be separated from political economic conditions. The need for accounting as a decision making tool has just been promoted only since the end of the 1980s. Besides that, the Indonesian capital market is still at the emerging stage, which means in the early stage of development. In this respect, the

contemporary thought of Indonesian accounting is quite promising. A step forward has been made with the focus on globalisation. So, the development of Indonesian accounting has begun to compete directly with other accounting systems.

6.5. Discussion

In the foregoing sections, the development of Indonesian accounting was shown to reach a harmonisation between the aspects of knowledge and practice. First, in relation to the aspect of knowledge, the Dutch accounting was not a concern for experts and practitioners. This means, that after thirty years, the influence of US system covered all Dutch practices. Second, as regards the aspect of practices, the influence of Dutch accounting on the governmental system began to be eliminated by Governmental Accounting Standards (USA) and Public Sector Accounting Standard (IFAC). However the failure to develop GASB in the US State Government made it difficult to take GASB as an example for other countries. However, the IFAC proposed another accounting standard, based more on British Governmental practice. This was more practicable in the Indonesian situation. Third, the shift of accounting orientation from SFAC to IAS did not need a lot of adjustments. Since the basic of conceptual framework is similar between SFAC and IAS, the shift in orientation did not affect practice. In reverse, the adoption of IAS provided stimulus for Indonesian accounting to 'go international'.

These three concerns reflect the advantages of taking IAS as a new orientation. Some disadvantages can be noted, however, in terms of Indonesian interest. First, the dependency on international institutions, or to be more exact, USA domination, will be

increased. The Indonesian financial mechanism will be determined by the USA. The risk of dependency can be mentioned as imbalance (recession) in USA will impact directly on the Indonesian financial system. The experience of the 1987 capital market crash affected Singapore's and Hong Kong's capital markets, but not Tokyo's. Another risk related to the dependency of the economic (business) system to the US system. The experience of Mexico's bankruptcy (1987) showed the disadvantage of inter-linkage among economic systems.

Second, Indonesia's interests can not be fully implemented. Since Indonesia's bargaining in international transaction is still weak, earning will be less and pressures greater. The result of such powerlessness is the loss of Indonesian's interest which means less income and the more capital outflow to international or foreign market. This condition will be a loss to the Indonesian economy.

Third, the impetus to build Indonesia' own accounting system will be less. The acceptability of international standards makes it hard to develop a unique accounting system. In long-term development, the need for Indonesia's own accounting system will be increased and so is the cost of self - regulation.

The contemporary stage of Indonesian accounting should be related to the development of the Indonesian political economy. The political openness of the Indonesian government in the 1990s has given the opportunity to businessmen and managers to develop their own system. In this situation, the question of the present system is raised.

One important question is whether or not Indonesia needs its own accounting system. This question has been raised in some IAI's Congress meeting in recent years. The change to IAS has not fulfilled all Indonesia's interests. Thus, the question arises whether gradual adjustment of IAS can put Indonesian's interest first.

Under GATT / GATS, the ASEAN market policy will be implemented in 2001. The Indonesian government should prepare for competition among ASEAN countries. Recently, the Indonesian business infrastructure has been less competitive than those of Malaysia and Singapore. In less than ten years, business independence should be increased which means creating dominant private participation. The significant position of accounting in business has stimulated the government to accelerate the accounting development. In this respect, the aim of the government policy was to develop accounting as a decision making and social tool.

The Contemporary Role of Indonesian Accounting:

In this subsection, the stage of the accounting role will be investigated from the point of view of academicians, especially the IAI's Congress proceedings in 1994 and 1996. In Table 6.2 above, the role of Indonesian accounting was interpreted. First, the shift of orientation did not affect the development of accounting functions in society. In the present stage, the accounting functions are dominated by accounting as an entity. However, there has been a very slight move to decision making, indicating the development of accountants' consciousness. Second, an understanding of the accounting functions in organisational and social spheres should be promoted. Most accounting

innovations are not designed to promote a shift in accounting functions. Taxation and accounting procedure, whether in programmes or education, are assumed to be limitations on new ideas. These factors reduce the impetus to develop the scope of accounting. However, the recent developments in the capital market and globalisation have pushed accountants to re-invent accounting from an organisational and social perspective.

In terms of knowledge, accounting functions are discussed mainly in terms of description of the present condition. Such descriptive of articles give the impression that accounting is not dynamic and analytic, but static and descriptive. On the other hand, at present, there is a tendency towards brainstorming, as opposed to learning or dialogue. These facts point to the stage of accounting as an entity.

Both states of accounting policy and knowledge lead us to a similar conclusion, that accounting is still at the recording stage. In future, the redirection of IAI's policy toward the capital market and globalisation will bring a shift toward decision making and social functions. The success of the programme will be determined by the political economic will of the government and accounting profession. This means that Indonesian accounting is dependent on the government's policy.

6.6. Summary

1. Accounting Orientation is a tendency of the Indonesian accounting toward certain system, whether from another country (Dutch and USA), from an international institution (International Accounting Standard Committee) or neither of these.
2. The main notions in the Dutch system were discipline and efficiency; and, in the US system, creativity and professionalism.
3. The Dutch system aimed to serve the colonial interest; and the US system to serve the US Free Trade interest.
4. Three factors that motivated the adoption of International Accounting Standards were: the development of the capital market, business globalisation and the requirement of GATS.
5. In the capital market, accountants' independence and integrity are examined.
6. In globalisation, accountants should deliver the best, customised and on time, at a competitive price.
7. In GATS, accountants' professionalism is challenged.

8. The aim of the accounting orientation development is to develop an accounting system that covers all Indonesia's interest.
9. The Financial Accounting Standards are developing towards capital market transactions and the development of private business.
10. There are nine criteria to examine the development of accounting thought: orientation, theory classification, articles format, time, scope, roles of accounting, context, new idea and area of new idea.
11. The Dutch Accounting System has been eliminated by an implementation of accounting standards from FASB, GASB and IFAC.
12. The adoption of IAS is only to legitimise Indonesian accounting to 'go international'.
13. The shift in accounting orientation did not affect the development of accounting functions in society.
14. The contemporary stage of Indonesian accounting role is accounting as an entity.
15. The Indonesian accounting development is still determined by the political-economic will of government.

PART TWO: EMPIRICAL ANALYSIS

The supporting material from the methodology chapter and the literature review was sufficient to produce a framework to analyse the empirical data, which were collected during the field-work in Indonesia.

The Empirical Analysis Part consists of two chapters: 'Regulating Privatisation in Indonesia: Accounting Point of View' and 'Financial Reporting Analysis for Privatisation Policy'. In the first chapter, we emphasise a critical interpretation of the transformation process. The interpretation of the documents serves as a guide to the presentation of this chapter. In the second chapter of empirical analysis, critical - social analysis will be the dominant perspective. By developing an accounting framework in a social perspective, we analysed the financial reporting of PT TELKOM and PT INDOSAT. Both chapters have a similar purpose: to investigate all government's claims on the result of privatisation.

We begin this part by reflecting briefly on Kratwohl(1985,p.36)' comments:

*The word presentation is emphasized because it is of that work,
rather than the work itself*

This quotation delivers the idea that the importance of empirical data analysis is in the analysis.

CHAPTER SEVEN REGULATING PRIVATISATION IN INDONESIA: ACCOUNTING POINT OF VIEW

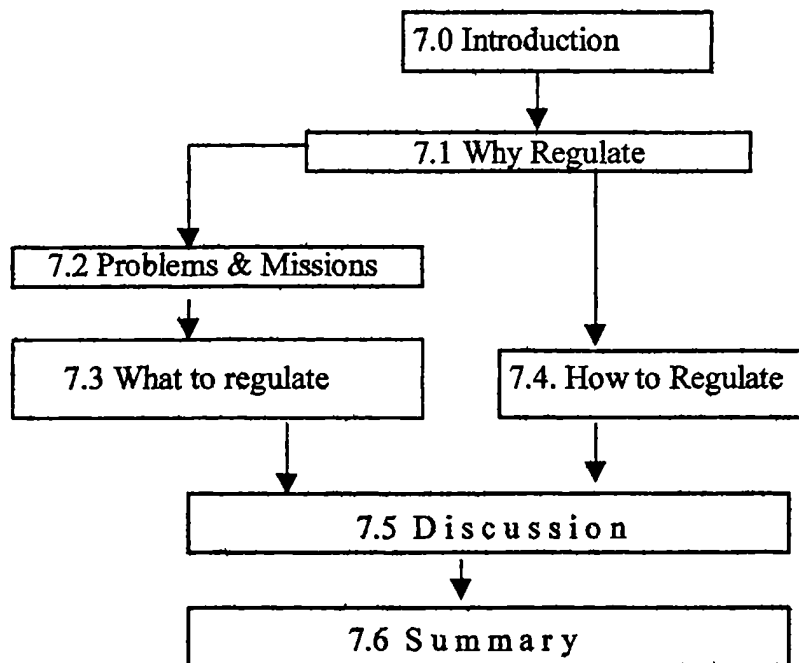
7.0 Introduction

Regulation is a feature of government policy. In this chapter, this statement will be utilised as a way to verify the macro policy underlying the privatisation programme, drawing on theoretical literature, government documents and transcripts of interviews. In addition to legitimising the existence of privatisation policy among other government policies, this chapter will reflect the implementation of a political economy framework to analyse Indonesian problems, leading to the conclusion that regulation analysis is one of main elements in the study of privatisation.

The starting point for the macro analysis is government publications, especially industrial regulations as the most reliable and valid of sources. In the telecommunication industry, the privatisation regulation was issued as Law No. 3/ 1989 and Government Regulation No. 8 / 1993 (See APPENDIX) which was supported by some government rules and ministry decrees. This chapter surveys and discusses the options available in designing regulatory institutions, processes and procedures for telecommunications, in the light of social, economic and political forces. In each section, a verification of analysis is exercised by re-analysis of each item in respondents' group's (management, directors and experts) response. In successive sections, it addresses the questions, why regulate (Section 7.1), problems and missions (Section 7.2), what to regulate (Section 7.3), and how to regulate (Section 7.4). These elements are drawn together in a Discussion

(Section 7.5). Finally, the whole discussion of the chapter will be summarised in Section 7.6.

Figure 7.1
Structure of Chapter Seven



The structure of the chapter, outlined in figure 7.1, is based on certain implicit assumptions. First, the process of privatisation starts before the issue of regulation. Second, the Indonesian privatisation programme was issued as a form of regulation that could be interpreted as indicating full government support. Third, the regulation is a result of various aspects and events. This means that a critical analysis of the privatisation regulation should be supported by empirical data, such as interview transcripts, which reflect those aspects and events. Following, the discussion will begin to shed light on the privatisation regulation in Indonesia.

7.1 Why Regulate?

Policy-makers in more and more countries have come to appreciate the critical importance of telecommunications, as an 'enabling technology' which makes it possible for a wide range of industries to reach high levels of productivity, especially critical in an era of global competition. Experience suggests that certain forms of regulation are necessary if the potential benefits of telecommunications are to be fully realised.

In practice, it was only certain countries (Argentina, Chile, France, Mexico and the United Kingdom) that had an opportunity to 'design' the regulatory regime for telecommunications comprehensively, at one particular time (Wellenius, 1994). In many countries, the evolution of regulation was gradual and incremental. By regulation, governments sought to increase competition in telecommunications and / or privatisation of state - owned Public Telecommunications Operators (PTOs). These facts indicate that privatisation policies only have governments' desired effects if appropriate regulatory institutions are functioning effectively.

While few would now dispute that some degree of regulation of telecommunications is necessary, the implications of that view are different, depending on one's fundamental view of the role of government. For those favouring government activism, the question 'why regulate telecommunications' translates into a set of policy goals and the regulatory steps needed to achieve them. For those taking the view that economic decisions should be left to market forces unless there is demonstrably a 'market failure' requiring

regulatory intervention, the question translates into: where are the market failures, and what should be done to correct them? These debates will be explored further, below:

Public Policy Goals

In general, statements of ultimate objectives of regulation tend to be similar, though the relative priority given to different goals may vary. In Indonesia, for example, legislative documents defined the broad goals as:

contributing to national unity and integrity
promoting the welfare and prosperity of the people
supporting economic life and the activities of the government
enhancing international relations
(Article 2, Law of Telecommunications, The Republic of Indonesia, No. 3/1989)

As in other developing countries, where access to telecommunication services was often very limited, especially outside the major metropolitan areas and the more developed regions, the policy goals of making telecommunications services ‘universally accessible’ and rapidly expanding the capacity of the public network were especially important. In the future, public policy will consistently provide a regulatory supervision of the industry in pursuit of these goals.

Market Failure

Where the prevailing view of economic policy emphasises primary reliance on market forces to promote economic efficiency and innovation, stronger justification than the existence of general goals such as ‘universal service’ may be needed before regulatory intervention is considered to be warranted. Such justifications take the form of ‘market

failures': situations where it can be shown that the market mechanism, unaided, is unlikely to produce the desired result. These can take one of several forms, notably:

- economies of scale and /or scope are not sufficient for an entrant to prosper once its operations are established
- actual or potential anti-competitive abuse of a monopoly position in one part of the telecom services industry (e.g. the local network), which might arise from history or from scale and scope economies, in order to obstruct competition in another part (e.g. long-distance telephone service, cellular service or value-added data services)
- divergence between the market outcome and distribution goals - inadequate expansion of service in rural areas, for example.

Table 7.1
Initial Response to Privatisation

Item	Origin		Response			Emotional	
	Public Policy	Market	Fine	Bad	Fine & Bad	Personal	Institutions
Origin	79%	24%	*	*	*	*	*
Response	*	*	59%	35%	6%	*	*
Emotional	*	*	*	*	*	53%	47%

The interview result of the background of regulation was slightly different. Privatisation involved more personal (53% of interviewees) than institutional (47% of interviewees) impact. The notion of privatisation was equal to 'change' that might affect individuals' income, careers and lives. Since the interviews were conducted at the individual level, the possibility of personal change was raised as a first response to the privatisation programme. In this case, the government campaign played an important role in influencing people's perception. The result was that 59% of interviewees in the early privatisation period felt privatisation to be good news, 35% as bad news and only 6% as both good and bad news, indicating strong support for the government's policy.

People's perceptions of regulation varied. Around 21% of the study interviewees viewed the privatisation as a response to market factors, while around 71% attributed it to human intervention in the form of public policy. Around 8% thought it was caused by a combination of these factors. The tendency to attribute privatisation to public policy was caused by the government campaign on privatisation and the experience of tight government control on the economy. One main notion that was raised in interviews was 'affordable products and prices', which was people's expectation of the results of privatisation. Since government always acted as the main actor of economic management and promised better services and prices for customers after privatisation, the trend to privatisation as public policy gave rise to a need for regulation.

Table 7.1.1
Initial Group Response to Privatisation (%)

Item	Origin		Response			Emotional	
	Public Policy	Market	Fine	Bad	Fine & Bad	Personal	Institutions
Management	81	19	60	30	10	58	42
Directors	63	37	50	50	*	30	70
Experts	63	37	67	33	*	80	20

Looking at the responses by group, the directors were quite conservative. They saw privatisation as predominantly an institutional matters and were not divided in their response to the government campaign. The directors were the first group able to estimate the practical impacts of privatisation. They understand all the circumstances of their companies and, at the same time, have in depth-knowledge of the politics of managing SOEs. In this case, the directors were actually less influenced than other groups by the government's campaign.

In the view of directors, privatisation is the shareholders' programme. The interventions of the owners were questioned in this case.

Namanya pemegang saham yaa... ikut campur
translated

The owners ..yaa .. always intervene

The quotation points on that privatisation was brought about by the intervention of shareholders, i.e. the government. Since the directors were actually not very optimistic, they seemed to have misgivings about the launching of the privatisation programme whether in the process or maybe in their estimation of the result.

Table 7.2
Factors Behind Regulation

I t e m s	A p p r o v a l
Competition	79%
New Technology	56%
Mode of Operations	31%
WTO / GATS	27%

In this case, the regulation became a critical point to evaluate the privatisation programme. The interviews revealed several factors that people see as reasons for regulating privatisation. The main reason was competition (mentioned by 79% of interviewees). The emergence of even more open competitive conditions within certain pairs of countries with competitive industry structures had strengthened the competitive environment. Recently, the definition of competition has been extended, from competition between companies in the domestic arena, to that between companies in different countries, leading to the idea of borderless zones, such as the European Free Market and ASEAN Free Market. Related to these phenomena, telecommunication became the first industry to face borderless competition in its services and products.

Competitors in the industry came not only from neighbouring countries, such as ASEAN and Australia, but also from the USA and European countries. Besides that, recent innovations in computers and entertainment impacted on the level of competition in telecommunication.

The second factor behind the need for regulation was mode of operation (71% of interviewees). The requirements of products and services had been changing, with the mobilisation of resources and other factors of production toward productivity, efficiency and the Just In Time (JIT) system. In the production process, there was a trend to implement Total Quality Management for Total Quality Control, in order to produce Zero Defects performance. Being customer oriented on delivery, the products and services became more competitive in market. These new approaches to operations necessitated re-orientation of information technology to be better distributed and more client-serving. However, the change in the operation mode affected the balance of the market. Some specific interests, such as developing small industries and promoting technology for local industry, had to be protected. In this case, the government had to play the role of regulator.

The third reason for promoting regulation was new technology (56% of interviewees). There had been development in digital telecommunication technology, that was applied to satellite, fibreoptics, and computer. The capability of this technology opened up the possibility of global person to person connection and integrating all services in the digital network. In other words, this technology united all telecommunication and computer

operations into one operation. The impact of digitalisation was not only technological, but also social, economic and cultural. In this case, innovation based on digital technology had to be encouraged through research policy.

The fourth or last reason for the privatisation regulation was the World Trade Organisation Agreement, especially the 1997 Basic Telecommunication Agreement, and the application of the basic General Agreement on Trade in Services (GATS) disciplines to the global telecom market (27% of interviewees). This issue involved international knowledge and free trade. The agreement seemed only to concern institutions. In other words, since the other factor, competition, represented the essence of WTO / GATS, little individual attention was paid to the agreement.

Table 7.2.1
**Factors Behind Regulation
(group)**

I t e m s	Management (%)	Directors (%)	Experts (%)
Competition	42	26	27
New Technology	19	30	27
Mode of Operations	34	22	37
WTO / GATS	5	22	9

Analysis shows that the three groups' responses on factors underlying regulation were quite different. The directors and experts did not see competition as a main factor. The directors mentioned new technology. The experts recalled mode of operations. Both groups actually pointed to the development and implementation of innovation as main causes of business change. In this respect, their belief in free competition influenced their opinion on regulation. This means that the actual key to success in privatisation is developing fair competition, in which new ideas can be promoted.

7.2 Problems and Missions

As this discussion shows, to consider usefully the question ‘why regulate telecommunications’, it is necessary to ask: ‘what kind of specific problem is the regulator instructed (by legislation or executive government order) to solve?’ In this case, the industry’s problems, which were mentioned in the previous chapter, should be redefined from a regulation point of view.

The nature of the ‘problems to be solved’ depended on the current structure of the Indonesian telecom services industry, the general economic, political and social situation and the prevailing set of fundamental telecommunications policies, particularly those concerning the roles of monopoly and competition.

Table 7.3
Indonesia’s Problems

I t e m	A p p r o v a l
Economic Achievement	74%
Supervise Monopoly Carrier	68%
Network / Service Quality	56%

Before privatisation, the Indonesian telecom industry was a full monopoly. In this respect, some inherent regulation problems could be mentioned :

First, how to ensure that pressures on the monopoly carrier for increased economic and financial performance did not prejudice the rapid achievement of ‘universal service’ (79% of interviewees). The obligations of state-owned telecommunication companies could be defined as commercial and universal service. The measure of commercial service was economic and financial performance, and the measure of universal service

was the availability of telecommunication service in isolated areas. In practice, the two obligations were in conflict. Corporate management often denied the fact that universal service obligations accorded lower priority than commercial objectives, causing stagnation in the industry in the long term. In this case, the regulator (in the regulation) should assure that both obligations are served appropriately.

Most of the universal service obligations could be characterised as unfavourable in the short term, but favourable in long term. Since most isolated areas were generally characterised by lower income population, the take-up of telecommunication service was growing very slowly. However, the existence of telecommunication service would affect the development of culture in terms of communication, especially in consuming telecommunication services, which would accelerate service sales in the long term. In Indonesia, the government, as regulator, took all responsibility for the universal service obligation. The questions, here, were how to legitimise the responsibility in telecommunication industry practices, and who would bear the cost.

A second problem was how to supervise the monopoly carrier and apply performance measurements, controls and / or incentives, in such a way as to ensure that it achieved optimum performance in the absence of competitive pressures (68% of interviewees). Most interviewees rated this problem as the most difficult one. The intervention of political interest and economic interest in evaluation procedure and measurement was identified as a critical point. In this case, the government regulated the annual budget in relation to annual goals' setting. Or, the regulator could draw up a pricing method to

maintain the rate of return in short term or long term. This means that regulation was needed to maintain a level of economic performance that served the interests of government, industry and customers.

One critical issue in this respect was economic strategy, i.e. whether to adopt globalisation or not. The debate actually concerned: 1) the growth in home market: if the company's home market was quite big and competition weak, the growth opportunities were still far from limited. Global expansion was not yet a viable option for continued growth; 2) new opportunities: even though the global arena might provide an opportunity for new expanding and undeveloped markets, the focus of strategy in the maturing national market should be refocused on higher margins and profitability; 3) the firm had a choice: in an industry where increased commodisation of products had not occurred, a firm still had a choice to maintain its existence. These concerns had to be investigated, in order to set a strategy toward foreign telecommunication firms. Opening the Indonesian market would affect the capacity of the industry to serve demand and regulate the income of the incumbent monopoly; however, if the entrants were foreign firms, the problem of capital flight could be raised. In this case, an economic strategy to develop the market needed to be explicitly covered by regulation, in order to legitimate strategies in relation to the boundaries and barriers of the telecommunication market.

Third, where the availability and / or quality of service was still limited, there was a question of how to stimulate accelerated expansion of the network and upgrading of service quality (56% of interviewees). This problem reflected consciousness of

technology advancement as the main driver in the growth of telecommunications. Developments in microelectronics had a major impact on two main components of telecommunication networks: the transition element and the switching element. In Indonesia, both these technologies had changed considerably. Transmission was traditionally effected through copper wires using electrical signals. Both speed and the amount of information transmitted were limited. To increase capacity, new cable had to be installed. The introduction of fibre optic cable revolutionised transmission concepts by using light as the medium of transmission. Fibre optic cable was small, lighter, allowed for faster transmission speed and had much greater capacity.

Switching was originally based on electromechanical technology, and allowed calls to be routed and connected through different exchange areas. The advance of microelectronics enabled the development of electronic based switching systems with corresponding size, cost and efficiency benefits. The development of the switching system mirrored the development of computers that, increasingly, depended on software operating systems.

Both technologies meant that both voice and data were represented in digital format, which offered new opportunities for growth. This development needed more financial investment. In this respect, the availability of financial resources for the expansion of the network and upgrading of service quality became an issue.

Table 7.3.1
Indonesia's Problems
(group response)

Item	Management	Directors	Experts
Economic Achievement	39%	47%	27%
Supervise Monopoly Carrier	34%	29%	36.5%
Network / Service Quality	27%	24%	36.5%

There were differences of opinion on this matter, between management and director, and experts. The first two groups saw economy as the main problem, while the experts mentioned supervising a monopoly carrier and service quality as main problems. Behind these differences was a common focus on the problem of a high degree of technology dependency. The experts could recall no factory that designed the basic components of telecommunication, such as chips. They stated that the multiple value of telecommunication was in technology. This means that lacks of attention to technology whether by carrier or service regulator, produced economic problems.

Changing circumstances, changing problems

Since Indonesia's telecommunication has experienced evolution, it has moved from a full monopoly to a partial monopoly and might, later on, move from a partial monopoly to a full market system. The major problems to be solved by regulators are changing. For example: in a partial monopoly the question is, 'into what segments of the telecommunications services industry should competitive entry be allowed?' while, in full market system, it is 'how to determine who can participate in the market?' Similar issues have arisen in many other countries (France and Germany, for example) as they have moved into a multi-carrier era (Wellenius,1993).

The pattern of telecommunication industry evolution can be explained thus. Historically, public telecommunications services were provided by monopoly telephone companies. Regulatory policy was based on the view that, in the absence of extensive regulatory safeguards, a monopoly provider would not assure the universal availability of reliable, essential services at reasonable rates, choosing rather to limit provision of those services to more populated areas and to charge unreasonable rates. Over the years, competition has become firmly established in one industry segment after another, regulators have grown more confident that effective competition in the provision of various telecommunication services generally protects the public and there has been a gradual relaxation of restrictions or withdrawal of some forms of regulation have arisen from the need to solve new kinds of problems, such as the terms of interconnection between different carriers' networks, or control of the numbering plan in a multi-carrier environment.

Table 7.4
Problem Solving

I t e m	A p p r o v a l
Combat Abuse	74%
Replace Competition	62%
Competitive Entry	59%
Distribution of Benefits	24%

The broad idea of problem solving can be derived from the evolution pattern. As a regulator, the government had a number of choices: to facilitate successful competitive entry (59% of interviewees); to combat abuse of market power (74% of interviewees); to act as a 'surrogate for competition', keeping the dominant PTO under

pressure to perform well until competitive pressures grew so intense that they could perform the same function (62% of interviewees); and, to redistribute benefits (24% of interviewees). It can be noted that the condition in which the growing demand for telecommunication services surpassed the available capacity of the supplier, underlay all solution choices.

The aim of problem solving was to move from a monopoly condition to a partial monopoly condition. The regulator was expected to set 'the rules of the game' in telecommunication business, to promote benefit, fairness and equity and self - confidence (Article 3, Law of Telecommunication, 1989). The first step was to maintain the existence of competition by facilitating successful new entry. The existence of competition was reoriented to the growth of the market within positive interaction between firms. In this respect, the government enacted a regulation to avoid malpractice, such as abuse of market power. The justification of the regulation would be to protect the growth of the industry in the long term. However, most interviewees emphasised that the capability of the PTO in competition, as a surrogate, paved the way. The domestic PTO was still trusted to lead the industry, even in a situation of full market competition.

A common opinion on competition was reflected in the solution 'to redistribute benefits'. Related to the first solution, facilitating entrants, competition should provide incentives by redistributing benefits among competitors and customers. This means that a need for an anti-monopoly regulation arose as a way to maintain long term competition, which acts as a control for the telecommunication firm's income and, in turn, power. On the

other hand, the pricing method should promote incentives for customers, in order to maintain loyalty and sustainable consumption of various telecommunication services. The last point is to make the telecommunication product and services ‘affordable’.

Table 7.4.1
Problem Solving
(group response)

Item	Management	Directors	Experts
Combat Abuse	40%	22%	36%
Replace Competition	25%	31%	36%
Competitive Entry	25%	30%	28%
Distribution of Benefits	10%	17%	0

The directors were not in line with other groups in their views on this issue. They selected replacement of competition and competitive entry as solutions to Indonesia’s problems. Their attitude toward combating abuse seemed influenced by their position. Since the common practice of government officers as shareholders’ representative was sometimes interpreted as abuseⁱ, the directors preferred to avoid this choice. However, their perspective on foreign companies’ entry to Indonesia should be considered. Directors mentioned the importance of barriers to new entry in the market.

Table 7.5
Opportunities and Challenges

I t e m	A p p r o v a l
National Regulator	91%
Transition Issue	79%
Mode of Operation	56%
Investment	53%
Pricing	45%

An understanding of problems and their solutions leads to the area of opportunities and / or challenges for the regulator, which are identified as investment (53% of interviewees),

pricing (45% of interviewees), mode of operation (56% of interviewees), national regulator (91% of interviewees) and transition issues (79% of interviewees). The shift from monopoly to partial monopoly created a new industrial structure. The key point in this situation was the national regulator, rather than the other four areas. This means that the management of the industry were required to be both experts and managers, in order to face new challenges. They should be capable of doing managerial work and, at the same time, have a certain vision for the future form of the telecommunication industry. The working areas with which the regulator was concerned encompassed not only industrial management, but also public relations, research innovation and international affairs. In other words, the responsibility for developing the telecommunication industry lay with the national regulator. This demanded a new institution, such as OFTEL in the United Kingdomⁱⁱ.

The transition issue relates to the transformation process from monopoly to partial monopoly, which can be classified in terms of industrial political-economy and technology. In terms of political economy, the change of industrial structure opened up more political and economic interests for government, private business and international firms. The floating of shares on the capital market opened up wider share ownership for Indonesian people and international community. Reorganisation put management in the position of having to compromise with professional interest. On the other hand, in technological terms, the transition to multimedia technology created various combinations of products from the telecommunication, entertainment and computer

industry. Both types of transition issue made the telecommunication industry more innovative and open to change.

The change of industrial structure influenced the mode of operation. The public telephone moved from coin to card and credit card operation. Telegrams were replaced by fax and e-mail services. Alongside fixed telephones, mobile telephones were introduced. Telecommunication services were affected by the nature of digital technology. Data transfer in the internet system was unlimited. These phenomena reflected a new mode of production toward borderless, unlimited capacity and just in time delivery, supporting globalisation, in the sense of the way local work serves global demand.

Underlying the challenges to the national regulator and the transition in modes of operation, is the issue of financial resources, whether in the form of foreign or local investment. In the previous chapters, it was shown that many international finance institutions gave a credit priority for telecommunication projects. One interviewee stated that *'One dollar produced seven dollars' worth of benefits*'. This means that telecommunication projects were a good prospect for investment.

The last area of challenge is pricing. The tariff setting process was one of matching between consumer capability and government interest in the industry's growth. Consumer capability was represented by adjusted consumer price index. The government interest was to maintain fair and open competition in the telecommunication business,

and to stimulate industrial growth. In Indonesia, the government interest was more favourable than that of consumers. This means that the challenge for the government was to implement a customer-oriented tariff system.

Table 7.5.1
Opportunities and Challenges
(group response)

I t e m	Management	Directors	Experts
National Regulator	29%	26%	31%
Transition Issue	24%	22%	31%
Mode of Operation	20%	16%	7%
Investment	13%	20%	25%
Pricing	14%	16%	6%

The experts addressed the transition issue as another opportunity. This suggestion was related to a creation of perfect market, which raised some new ideas. In the process of producing the perfect market, the opportunity of change or reform became significant. In this case, careful planning and decision-making in the transition period would optimise the benefit of privatisation.

The 'Mission' entrusted to the regulator

When there is a general agreement on 'problems to be solved', there is a sound basis for creating a specific mandate to the regulator (usually in the form of legislation), assigning specific tasks or 'missions'. A 'mission' is an assigned responsibility to bring about a specific result or outcome, which defines what the regulator should strive to accomplish. The desired outcome defining a 'mission' might be, for example, the rapid expansion of the telephone infrastructure in a developing country, low telephone rates for low-income users, high quality service in outlying regions, the establishment of effective competition

in the provision of certain categories of services or the encouragement of certain kinds of innovations in technology, network architecture or telecom services. In this case, the interviews pointed to ten missions. The remainder of this subsection is devoted to discussing in greater detail what specific missions, in practice, were assigned to telecom regulators.

Table 7.6
Mission of Regulator

I t e m	A p p r o v a l
Universal Service	3%
User Interest	3%
Restructuring	18%
Moving towards & 'no discrimination policy'	15%
Supervising the dominant PTOs	18%
Innovation	9%
Technical preconditions	12%
Managing common resources effectively	15%
Investment	9%
Network interconnection	3%

Changing the industry structure (18% of interviewees). If a decision had been made (by the legislative or the executive government, depending on the constitution) to bring about a change in the structure or functioning of the telecommunications service industry, the regulator might be given the specific 'mission' of devising means to bring this about. Often, the desired change was towards a more diverse and competitive industry structure, but this type of 'mission' could be very far from 'deregulation'. For example, in Japan, the Ministry of Posts and Telecommunications caused NTT to maintain high levels of charges between Tokyo, Osaka and some other major locations for the initial period of competitive entry, to help new entrants gain a foothold (Minges & Kelly, 1994).

Supervising the dominant PTO (18% of interviewees). In countries where the competition facing the dominant telecom companies / PTOs was still limited or where competition did not exist at all, a major mission for the regulator would generally be to apply the right 'carrots and sticks' (i.e. constraints and incentives) to ensure improved performance by the dominant PTO. For example: in Mexico, a monopoly carrier techniques of regulation was replaced by price-cap regulation of rates, that were initially developed for the regulation of dominant carriers such as British Telecom in markets such as the United Kingdom where competitive entry has already occurredⁱⁱⁱ.

Moving towards a 'no discrimination policy' ('level playing field') (15% of interviewees): Regulators in Indonesia with a pro-competitive policy argued that a completely uniform set of rules governing all players equally (and a practical minimum of such rules) was the ultimate long - range goal of regulation. In practice, this was generally not a practical option under conditions prevailing today or likely in the near future, because of the need to create some form of discrimination in favour of new entrants. Thus, the practical choice concerned how much emphasis the regulator would give to non-discrimination as a near-term goal, relative to the goal of creating conditions where new, competitive carriers could become established.

Managing common resources effectively (15% of interviewees). Use of certain physical resources and related rights, such as the radio spectrum or public rights-of-way, might be controlled by the regulator.

Assuring technical preconditions for effective operations (12% of interviewees). Certain technical decisions concerning numbering plans, technical standards or rules concerning the attachment of customer premises equipment (CPE) to the public network, for example, have a pervasive effect on the operational effectiveness of public telecommunications services. In a monopoly system, these decisions might either be left to the PTO itself (subject to the constraints set by international agreements and recommendations) or be included in the regulator's "mission."

In those countries and industry segments where telecommunications policy favours competition, the regulator's responsibility for these decisions is inescapable, since they determine many aspects of how the competing carriers can or cannot operate. A notable example is 'number portability,' currently being considered in Indonesia, which would allow telephone subscribers to keep their number unchanged while transferring their access line to a different carrier.

Stimulating innovation (9% of interviewees): In many countries, the regulator was seen as having a role to play in anticipating opportunities for service innovations and creating an environment favourable for their timely exploitation. One example of such a 'mission' being followed in practice is the recent licensing of satellite systems serving very small aperture terminals (VSATs) that are provided independent of the dominant PTO.

Stimulating investment in the public network (9% of interviewees). In Indonesia, a pressing need to accelerate investment in expanding and upgrading the public network infrastructure might mean that creating favourable conditions for investment is a key responsibility of the regulator. Where the network had been or was being privatised, for example, this factor might be crucial in establishing and subsequently administering licence conditions for PTOs.

Network interconnection (6% of interviewees): It was vitally important to create a favourable environment for interconnection of new network operators and other providers of telecom services and for interconnection of new kinds of customer premises equipment (CPE). Open entry required interconnection. This, of course, was a general principle. In practice, the regulator had to address the specific modalities of interconnection and the appropriate levels of charges for interconnection, a complex and demanding subject.

A requirement for open interconnection imposed by the regulator carries a cost to the established PTO to configure its network and software to accommodate new entrants in a manner that may not be optimal if the PTO were to consider its own interest alone. The more innovative the services proposed by the new entrant, the tougher the problem might become for the dominant carrier. This subject required considerable study and analysis, since it lay at the heart of the challenge of finding economically efficient means of facilitating entry and promoting competition.

Rules governing interconnection generally have three components: first, a set of principles governing the interconnection; second, procedures and processes to make regulatory decisions in a specific case; and third, mechanisms for monitoring compliance and for enforcement. The fundamental need for these regulatory requirements existed irrespective of Indonesia's level of development, although of course, the details of their form would depend on Indonesia's ability to establish and implement the rules.

Promoting social goals concerning 'universal service' (3% of interviewees): In many cases, the regulator has been given specific responsibilities concerning the ability of certain categories of customers to gain access to telecommunications services on acceptable terms. The categories of customers might include low-income households, users in remote geographical areas, or disabled persons.

Protecting user interest and considering user complaints (3% of interviewees). In addition to 'universal service' goals, the regulator might have a general duty to protect the interests of telecom users. This might include an obligation to consider user complaints, at least in cases where the user had first complained to the PTO concerned, but had been unable to solve the problem.

In practice, the telecom regulator's mandate generally represented a mixture of these different concepts. Indonesia's Law No.3 /1989 stated that:

with a view to promoting the organisation of telecommunication, it is necessary to make continued and effective efforts and public participation to guarantee the provision of telecommunication services to the maximum to the

public, to be able to follow technological development
(Item d., Opening)

The quotation relates to the mission of ‘changing the industry structure’. New entrants to the industry were invited, in order to increase the capability of serving the public need. This mission was complemented by another regulation, Government Regulation No.8/1993 (See APPENDIX), which stated:

Pursuant to the stipulations in Law No.3/1989, the rendering of telecommunications services is left by the government to an operating agency in the form of a state-owned company, set up for this purpose and acting as the holder of the authority for domestic telecommunications services and the rendering of international telecommunications services.
(#2, *Elucidation on The Operation of Telecommunication*)

In this government regulation, the mission was stated as ‘Supervising the dominant PTO’ which was implemented in the context of ‘Changing the industry structure’. This means that the missions adopted by the regulator in practice are in line with predominant perceptions expressed by interviewees.

Table 7.6.1
Mission of Regulator
(group’s response)

I t e m	Management	Directors	Experts
Universal Service	0	0	16.67%
User Interest	0	11%	0
Restructuring	14%	22%	16.67%
Moving towards a ‘no discrimination policy’	14%	22%	0
Supervising the dominant PTOs	19%	12%	16.67%
Innovation	10%	0	16.67%
Technical preconditions	19%	0	0
Managing common resources effectively	14%	22%	0
Investment	5%	11%	16.67%
Network interconnection	5%	0	16.67%

As shown in table 7.6.1, the spread of suggestions was large. Management preferred technical conditions and supervising the dominant PTOs items. The directors favoured restructuring, moving toward a no-discrimination policy and effective management items. The experts gave six items the same degree of preference. In this case, the commitment to the cumulative result should be maintained (see Table 7.6). Behind these facts, the regulator's role was not included as government campaign material. That is why the spread of opinion was so wide.

7.3 What to regulate?

Defining the 'problems to be solved and regulator missions' in Indonesia at a particular time provided a basis for a rational choice of 'what to regulate'. The interviewees listed some aspects of provision and use of telecommunication services, which might be regulated:

1. licensing carriers (24% of interviewees)
2. establishing and supervising technical and operational standards and practices for network operations by carriers (94% of interviewees)
3. overseeing the quality of services provided by carriers (64% of interviewees)
4. regulating the pricing of telecom services, either by controlling telecom operators' rates (tariffs) in detail or by applying some more general form of control such as a price-cap (24% of interviewees)
5. setting the terms (administrative, financial and technical) for the interconnection of different carriers' networks, including the 'access' pricing charged by one carrier to another, where there are multiple carriers and one carrier needs to interconnect with another's network (21% of interviewees)
6. controlling type approval of customer premises equipment (CPE) and its attachment to the public network (88% of interviewees)

Expectations of regulation were investigated in the interviews. The standardisation of network was perceived as the most important aspect of regulation, followed by controlling the system of CPE and quality of services. These elements indicated the

components of high quality services: standard network and control system. Less attention was paid to supporting components of high quality service, such as licensing carriers and pricing, which were seen as method problems. In the lowest rank, came setting the terms (administrative, financial and technical) for the interconnection of telecommunication networks.

Table 7.7
What to Regulate
(group response)

Item	Management	Directors	Experts
Licensing Carriers	6%	6%	11%
Standard	32%	29%	24%
Quality	20%	22%	24%
Pricing	6%	7%	11%
Terms	7%	7%	6%
System	29%	29%	24%

Related to the groups, the preference was quite similar to cumulative result. The only difference was for the expert group. The experts added quality as an additional main subject for regulation. The rationale idea was for the importance of customer protection. This means that quality is regulated to promote a standard for service quality. Experts considered unregulated service as offering no control of the conditions of SOEs' performance.

Table 7.8
Analysis of Law No. 3 / 1989
Telecommunication

Item	Articles	Total
Licensing Carriers	2,3,12,13,14,33,34	7
Standard	4,5,6,7,8,10,11,16,18,23,24,29,30,31,32,35,36,37,38,39,40,41	22
Quality	26,27,28	3
Pricing	17	1
Terms	1,9,15,25	4
System	19,20,21,22	4

Table 7.9
Analysis of Government Regulation No.8/1993
The Operation of Telecommunication

Item	Articles	Total
Licensing Carriers	3,4,5,6,7,8,12,22,23,24,25,26	12
Standard		0
Quality		0
Pricing	14,15,16,17,18	5
Terms	1,2,10,11,13,14,20,21,17,18,29,30,31,32,33,34,35	17
System		0

In the current institution, the number of articles on standardisation is the highest; 22 articles in Law No.3/1989 and none in Government Regulation No.8/1993 that directed the development of industry towards a high standard quality of network. In second place comes licensing carriers, supported by 7 articles in Law No.3 / 1989 and 12 articles in Government Regulation No.8 /1993. This means that the government has focused on the method of achieving a high network standard: privatisation. This indication is supported by the large number of on terms (4 articles in Law No.3 and 17 articles in Government Regulation No.8) and pricing (one in Law No.3 and 5 in Government Regulation No.8). Both these items are main components of the rules of the game for telecommunication business. However, the number of articles on system and quality items is still appropriate.

In this case, the expectation of regulation is slightly different from the concept of Law No.3. The purpose of launching Law No.3/1989 was to promote privatisation, and it explored many possibilities in the area of licensing carriers. On the other hand, the expectation for the regulation was to obtain a high standard of telecommunication

network. In this case, the cumulative goal of regulation as high standards is reflected in expectation, and the mission of Law No.3. The difference stems from an assumption that Law No.3 is a product of government strategy in telecommunication industry for 1990s. So, the priority in regulation in Law No.3 was to support the implementation of privatisation, rather than to maintain high quality service. This means that the regulator utilised Law No.3 Telecommunication to legitimate the privatisation policy. In other words, the regulator assumed that the old method of telecommunication management should be replaced by another method, such as privatisation, in order to maintain high quality service.

Related to privatisation, the Law of Telecommunication can be classified into two main areas: organisational restructuring and economic change. Most of the articles relating to licensing of carriers represent organisational restructuring, allowing new entrants into the telecommunication business. Economic change is covered in the pricing articles. For example:

The tariffs of telecommunication services shall be given in Government Regulation (Article 17, Law of Telecommunication - No.3/1989)

Tariffs are dealt with in Part Four of Government Regulation No.8 / 1993. The types of tariff are defined as follows:

14 The tariffs of telecommunications services are divided into two kinds:

a. the tariffs of basic telecommunications services comprising the tariffs of domestic basic telecommunications services and the tariffs of international telecommunications services

b. the tariffs of non-basic telecommunication services

and,

15(1) The tariffs structure of domestic basic telecommunications services consists of: a. basic tariffs; b. special tariffs;

The basis of tariff calculation was defined thus:

- 15 (2) The basic tariffs as referred to in paragraph (1) letter are the tariffs used as the calculation basis for the costs incurred for:*
- a. telephone and telex services, namely, pulse tariff;*
 - b. telegram service, namely word tariff;*
 - c. services of communications connection of package of data, namely the tariff of data volume (segment) and the tariff of the length of talk*
 - d. services of subscribers' circuits and telecommunications canals, namely tariff of service use with a length of time*

and

- 15(3) The special tariffs as referred to in paragraph (1) letter b are the tariffs for the installation and use of telecommunications facilities stipulated in accordance with the types of facilities and / or the condition of a region and comprising: a. installation cost; b. monthly subscription fee; c. facility use fee; d. other additional facilities costs*

It seems that the setting of tariffs was explicitly stated. The type and basis of calculation was laid down in the Law, which determined the cost accounting procedure. However,

- 16 The amount of the tariffs of domestic basic telecommunications services as referred to in Article 15 shall be stipulated by the Minister*

and

- 17 The amount of the tariffs of international basic services shall be stipulated by the minister on the basis of international agreements and other agreements in force.*

and

- 18 The structure and the amount of tariffs of non-basic telecommunications services shall be stipulated by the operating agency and / or other agencies after approval of the Minister has obtained*

These three articles, 16 - 18, override all the arrangements expressed in articles 14-15.

The approval of the Minister becomes the ultimate barrier, reflecting government intervention in the industry. In this case, the implementation of pricing policy to control the industry becomes unclear, leading to uncertainty as to tariffs, for customers and / or

firms. In other words, no decision for pricing method on the telecommunication industry can be concluded for this government regulation.

7.4 How to regulate and Innovation

Even when given a defined ‘mission’ or ‘missions’, the regulator could still choose to fulfil the mission using widely different regulatory approaches. Descriptive terms like ‘light touch’ regulation are sometimes used. The most useful way of defining different regulatory approaches or ‘styles’ distinguishes two kinds of choices that must be made:

How far the regulator will exercise control routinely, and how far the regulator will act ‘by exception.’ To what extent will certain matters (‘access charges’ for interconnecting other networks to the established public switched telephone network, for example) be routinely controlled by the regulator, or will the regulator only intervene ‘by exception’ when a particular regulatory case requires this?

In Indonesia, the political interest influences many government policy decisions. For the telecommunication industry, according to articles 16-18 of Government Regulation No.8/1993, the industry could not decide its pricing method to protect the interest of customers and other agents. This means that the government did not want to delegate some critical decisions (e.g. pricing method) to the market, or, the industry was assumed to be too immature to regulate itself.

The culture of government domination was strongly reflected in the interviews. Most interviewees believed that this style of regulation tended to stifle creativity and innovation.

‘secara reguler memang memberikan kesempatan yang lebih baik, penilaian obyektivitasnya masih terkait dengan Direktur’

(‘management provide some opportunities regularly, even though the evaluation depends on the Director’)

This quotation referred to the bureaucratic conditions prevailing in the industry. The management promoted put forward ideas to encourage the creativity of employees, but the process is restricted by the need for approval of the Director. This means that innovation is limited to the management standard. Only a few ideas could be implemented if they were in line with the Directors’ thinking. In contrast, creditors, as sources of financing, were said to be influential on the industry’s and government’s policies, as shown by the comment:

‘banyak hal baik yang dilakukan akibat paksaan Bank Dunia’
(The ‘World Bank forced us to do a lot of good things’)

Many modest and advanced ideas for developing the industry were delivered by World Bank, which promoted a liberal market. Examples of such ideas include privatisation and financial reporting qualification.

With regard to the privatisation case, the creditor was an important agent to manage the industry. Many regulations were formulated to implement the World Bank’s suggestions, such as Law No.3 /1989. In fact,

‘Di tahun 1970an, pakar ITB sudah bilang ini harus dideregulasi’
(‘ In 1970s, Institute Technology Bandung suggested a deregulation’)

This comment indicates that government, as a regulator, paid more attention to external advice than to Indonesian experts. In this situation, the regulation was determined by external interests.

In respect of financial reporting, the leadership was a determining factor for organisational change. For example, PT Telkom, even though the movement for better financial reporting had started in 1970, the issue of financial reporting qualification was not raised. As one interviewee commented:

‘suara pemberontakan di dalam, tetapi pintunya belum terbuka’
(‘the voice of rebellion is heard inside, but the door is not open yet’)

The voice of rebellion means internal management. The closed door means that attention was not paid to qualification for financial reporting by top management. When the management orientation was changed toward better management, a qualification for financial reporting was raised as a main programme and succeeded in only three years. In line with that, the World Bank suggested a qualification for financial reporting as a preparation toward privatisation. This condition emphasises the role of leadership and creditors as determinants of change.

The above quoted comments support the conclusion that the regulation was not controlled by the regulator itself, but by the leadership and external institutions. This condition made the routine control by the regulator an unusual practice in the telecommunication privatisation policy.

One interviewee emphasised ‘by exception’ practice, thus: ‘people develop very much through business’. Confidence in the full market system raised the issue of the ‘invisible hand’ of the market mechanism. However, the disturbance of market equilibrium was not altogether avoided, so the intervention of government as a market regulator promoted

a new equilibrium in the market mechanism. The effect of equilibrium shock shows that 'by exception' control in the regulation worked well.

- How far the regulator controls outcomes directly or indirectly. For example, if one goal of regulation is low prices for service, will the regulator control prices directly, or seek to influence prices indirectly by promoting an industry structure that is considered to be favourable to achieving low prices? Or, to take another example, will the regulator directly impose particular targets for network expansion and modernisation, or rely on the effect of a general framework of incentives designed to encourage carriers to pursue these goals?

As in the previous question, a lot of answers denied the existence of control in regulation.

Some of the ideas expressed can be mentioned here:

'promote international standard'

This comment indicates that the goal of regulation was subject to international institutions. This condition produced an impression that control was exercised by international institutions, such as London and New York Capital Market. In other words, there was no need for regulator control.

isu kunci dari semua pembicaraan adalah 'World Class Operator' - AFTA and APEC.

(the key issue of our discussion is ' World Class Operator' - AFTA and APEC)

This opinion reflects the view that regulator control was unsatisfactory, since all requirements were inspired by the concept of a World Class Operator as defined by the World Bank. In this respect, the regulator only supported the World Bank's proposal.

The cynicism about regulatory control can be traced back to the lack of a regulatory tradition in Indonesia. According to the state constitution, the regulatory tradition should

be implemented in all aspects of society. Since many legal cases, especially political litigation, produced an unfavourable attitude toward regulators, the expectation of fair control became less. As a conclusion, the high degree of political interest in regulation caused loss of confidence in the regulator.

According to Law No.3 /1989, the control function is performed by the Minister and the Telecommunication Advisory Board. The duty of the latter is mainly in relation to telecommunication strategy. That of the former is difficult to interpret. The ministry's position is that of controller and decision-maker. On the one hand, the ministry developed the pricing method and implemented it to calculate the price which was finally approved by the ministry itself. On the other hand, the ministry should monitor whether customer's interest is protected in the short and long term. In this case, the ministry was not an appropriate controller, as the control was quite biased.

Innovation

Governments and regulatory agencies in most countries are likely to want the PTOs, other organisations participating in the telecommunications services industry (such as providers of value-added services), and telecommunications users to remain in the forefront of innovation as 'fast followers', if they can not be leaders. In countries where PTOs or other providers of services and / or telecommunications equipment manufacturers are growing as competitors in the global marketplace, the promotion of innovation in the home market would be important in fostering the international competitiveness of these organisations. In virtually all countries, maintaining a high rate

of innovation is important in ensuring that the benefits that the public telecommunication networks provide to the national economy are maximised.

The most fundamental issue concerning regulation and innovation concerns whether or not the regulator should intervene to promote innovation. Some views of the role of government attach importance to its 'catalytic' role in stimulating innovation. Other observers are deeply sceptical of government's ability to 'pick winners' and argue that its role should be minimised, leaving the responsibility for decision-making about innovation wholly or predominantly in the hands of the commercial management of PTOs and other operational organisations.

According to Law No.3 / 1989, the duty to stimulate innovation is given to the Telecommunication Advisory Board which was formed by Presidential Decree. However, no clear description or orientation of innovation work is laid down. This means that the general guidance for technology advancement is still unclear.

In the interviews, the support for government intervention in innovation was 100%. However, some statements made by interviewees reflect their views on the importance of technological advancement:

First, the cost of the technology gap can be defined as dependence on foreign products and firms and lack of competitiveness in globalisation.

'memang system yang kita implementasikan memang kurang canggih, tetapi kita safe begitu ... begitu ada trouble, kita tergantung pada pihak luar'

(the implemented system is not so sophisticated, but it is safe for us ... if not, we would be dependent on foreign firms, in order to solve our problem)

‘karena persaingan semakin ketat dan globalisasi’
(since strong competition and globalisation)

Second, the requirements for be innovation were said high to be quality leadership and to pure private business.

‘yaa .. belum pernah punya pemimpin sekualitas Cacuk’
-- ‘yaa ... we have not a leader of Cacuk’s quality’

‘... yang terbaik menuju swasta murni’
-- ‘..the best thing is to be purely private’

Third, the first step to create change was to get access:

‘You have to get access to create change’

Those comments classify areas of innovation into organisation, technology and price. Related to organisation, leadership is mentioned as the key to innovation. The vision of the leader determines the acceptability of innovation in the organisation. However, some constraints should be considered, such as budget and quality of human resources. In Indonesia, the introduction of divisional structure organisation to telecommunication has pushed the organisation to be professional and more economics oriented. Besides that, it has produced extensive entrepreneurial innovation. For example, the regulatory policy not only licensed extensive provision of public telephones independently of the PTO, but also provided a commercial infrastructure by arranging for centralised sales and revenue distribution for prepaid payphone cards. The strategic initiative came from the regulator. The entrepreneurial response came from a wide range of businesses, from large

corporations to small retail and service establishments, and public payphone availability expanded very substantially as a result.

In respect of technology and price, the notions of privatisation and information were raised. Most interviewees mentioned that, in privatisation, the role of technology innovation and price setting promotes transparent information for customers' and suppliers' interest. The role of technology would be developed toward an ISDN-based nation wide 'electronic highway', and, price setting became a way of controlling to the industry's earning and protecting customers' interest.

7.5 Discussion

The idea behind privatisation can be summed up by the word, 'competition'. In the analysis of the research data, privatisation was identified as a fine public policy, which exploited the individual situation toward economic achievement. The fine public policy was reflected in the impact of privatisation in business. Business should be fair and open, as indicated by the Indonesian problem solving on 'combatting abuse'. In this case, industrial restructuring and supervising the dominant PTO became the main instruments to produce a high quality service in the telecommunication network.

The findings also indicated that the key to the privatisation programme was the national regulator as the top management team in the industry, which had to optimise economic achievement. One of the challenges facing the regulator was to promote privatisation as

Indonesia's home-grown policy. This means that innovation should be developed toward reinventing Indonesian's home-grown factors.

The style of Indonesian privatisation could be described as 'service' oriented, even though the service standard was not regulated. This means that the real aim of this policy was only to achieve high quality service in the telecommunication industry, by means of service competition. In this case, the influence of other factors, such as price and technology, was neglected. Thus, privatisation took the form of partial competition in which only service was emphasised. The impact of partial competition has been a limited change in the industry structure, especially on reorganisation. More firms have been enabled to enter the industry, which has moved from monopoly to oligopoly. Various types of service product were introduced to the customer, such as: internet and Voice Mail Box. Reduction in the waiting list and the increase in the Successful Call Rate have been cited as achievements of privatisation. However, the question 'who wins and loses in privatisation' is not answered yet.

On the side of technology, Indonesia only imported technology, such as digital and VMB. This means that the development of technology was only short term and determined by market demands. In the long term, the industry was not competitive enough to face competitors from foreign firms, which, in turn, affected the price and service. On the side of pricing, the tariff for the telecommunication service gradually increased, even after the privatisation announcement. For example, the domestic telephone tariff, in January 1998, increased by 8.7% and in April 1998, increased by 15%. The service

improved as the price increased. This means that in pricing, privatisation did not affect the interest of customers. Both facts support the view that customers were the losers in privatisation.

An emphasis on service orientation was a reflection of producers' interest. Management should serve better and enlarge their areas of service, to increase the firm's earning. The reduction of the waiting list and introduction of more types of service only affected the pattern of customers' spending. However, the increase in service did not directly affect customers' welfare, as represented in price. The trend in technological development reduced the cost of production, opening up the possibility of reducing prices. On the other hand, the increase in service opened up the possibility to serve more customers, which indirectly meant more income. This means that the increasing price in the Indonesia telecommunication industry made customers the losers.

Lesson's from United Kingdom's experience. Related to Chapter Two, the United Kingdom's privatisation was an inspiration for other countries, included USA. In telecommunication, the UK regulation's experience promoted significant lessons. The country's institutions were importance as guarantors of commitment to a regulatory policy that offers adequate safeguards for investment and incentives for efficiency. The existence of an independent judiciary with a strong tradition of upholding contracts and property rights allows regulatory bargains to be enforced through licensing arrangements. In the United Kingdom, the regulatory incentives system (price-cap) provided for gradual price reductions while avoiding too much regulatory interference in price setting.

The UK's lessons highlight the lack of a regulatory tradition in Indonesia. The privatisation would be begun with launching new regulations, if Indonesia's institutions, such as judicial, political and industrial institutions, were accustomed to have faith in law. In this case, Indonesia's telecommunication regulation was issued in the environment of a weak regulatory tradition. This condition created a slow progress in developing regulatory capability.^{iv} In turn, the benefits of privatisation became less and, even, unclear. Loss of benefit was a result of failure to optimise. Lack of clarity was caused by difficulty in justifying the privatisation process in financial or organisational terms. This means that regulatory innovation was necessary for public policy in Indonesia, such as privatisation.

Accounting Role. In the above discussion, controversy as to the nature of Indonesian privatisation has been raised. The type selected has affected the regulatory choice. Table 7.10, below, compares expectations of privatisation with the actual outcome under the regulation.

Table 7.10
**Privatisation Contradiction in Indonesian's Telecommunication
Between Research Data & Privatisation Regulation**

Item	Expectation	Regulation
1. Meaning	Economic Reform	Reorganisation
2. Product	Role of The Game	Reduce Barrier to Entry
3. Type of Competition	Total	Partial
4. Component	Service, Pricing , Technology	Service
5. Reporting	Reflect Reality	Promote Decision Making
6. Focus	Network Service Quality	Management Method
7. Winner	Customer	Producer
8. Management's Challenge	Home Grown Privatisation	Adopting Imported Policy

The basic difference between expectation and regulation is with respect to the interpretation of meaning. The study's analysis expected total competition (service, pricing and technology) which would promote economic reform. This, in turn, would induce new rules of the game in the telecommunication business. To support the implementation of the new rules of the game, reporting should disclose all reality in the industry. Related to reporting disclosure, the quality of network service could be investigated in terms of the customers' point of view.

The regulation restricted the privatisation to reorganisation that reduced barriers to entry. Besides that, the partial competition (service) of privatisation focused the policy on achieving the target of the privatisation programme. This means that telecommunication firms were getting more advantages. In this case, the function of reporting was to support the decision making in the privatisation policy.

The gulf between expectation and reality arose as a result of the top down approach in government policy. Government denied the need for management understanding before launching the programme. On the other hand, the government culture did not accept management suggestions. As a result, bias has existed in the programme from the outset. The regulation fell short of expectations. Some possible explanations could be offered. First, the experts and management were not realistic in their vision of the future of telecommunication. Second, management had gradually changed to restructure the industry, so, the regulation should be set like an expectation level. Third, management, experts and government had difference perspectives on the privatisation regulation. In

this case, a result of interview analysis on the role of accounting topics will be explored to verify these possibilities.

The analysis of the role of accounting is about how accounting functions in society. In this case, accounting functions, its components in privatisation, background and even technical methods were preferred as elements of analysis related to public policy, such as privatisation. Below, table 7.11 reflected a result of analysis on the role of accounting in privatisation.

Table 7.11
Contradiction of the Role of Accounting
in Telecommunication Privatisation Policy

Item	Expectation	Regulation
1. Functions	Reflect Social Reality	Promote Competition
2. Perspective	Social	Organisation
3. Transition Component	- the rules of the game in business	- Technology change - Demand for 'need' of the people - The diffusion of ownership
4. Technical Form	Pricing & Investment Method	None
5. Crises Background	- Business Ethics - Quality	- Financing - Globalisation

The difference between the interviewees' perceptions and regulation begins with the crisis background. Interviewees suggested that the main problems of the telecommunication industry were business abuse and service quality. Business abuse could be solved by a strategy to combat abuse (implementing business ethics). Quality could be increased by a divestiture strategy / industrial restructuring. Both ethics and restructuring could promote reform in the rules of the game in the telecommunication

business. The interviewees utilised a social perspective to make the new rules of the game work. In this case, explicit regulation on pricing and investment methods was needed to provide technical solutions for this new setting.

The regulation, however, was launched with the aim of solving financing and globalisation problems caused by technology change, high demand and the diffusion of ownership. These factors of change produced a highly competitive situation in the telecommunication business. In this case, implementation of the regulation should support the decision making process inside the business organisation. However, the regulation did not explicitly support a change in internal management. In other words, no explicit regulation on technical solutions for pricing and investment, as a form of accounting, was issued.

The difference between the regulation and interviewees' expectations is caused by differences of perspective. Interviewees viewed privatisation as a reform of social welfare, which affected individuals' economy. On the other hand, the regulation assumed privatisation to be an industrial restructuring policy. The difference in starting point produced interesting differences in respect of the internal mechanism, outcome and procedure of privatisation. This suggests that the telecommunication privatisation regulation should be revised, in order effectively to support economic development within Indonesian society.

7.6 Summary

1. Regulation is a Political Economy form of government policy.
2. Four basic aspects of regulation were reviewed: Why Regulate, Problems and Missions, What to Regulate and How to Regulate.
3. The role of the government in telecommunications regulation is more favourable than a market failure approach.
4. In earlier times, it was believed that greater prosperity for customers and employees would be achieved through privatisation.
5. The determinant factors of the privatisation regulation were competition, new technology, mode of operations and WTO / GATS.
6. Network service quality became the biggest problem in the Indonesian telecommunication industry.
7. Supervising the monopoly carrier was an important issue for the telecommunication industry, since Indonesia had just moved from a monopoly to a partial monopoly.

8. Combatting abuse was determined as the first priority of the national regulator, which indicated a need for business ethics.
9. Industrial restructuring and competition were solutions to telecommunication problems after ethics had been set up.
10. Setting up the national regulatory body was the most challenging task for government, since the team would be the operational management for developing the industry.
11. In launching privatisation, the transition issue had to be paid attention by government and the national regulator.
12. The national regulator planned its programme in mode of operation, investment and pricing areas, since these three areas delivered some promising opportunities to accelerate the industry.
13. The main missions of the regulator are to supervise the dominant PTOs, related to business ethics, and change the industry structure, related to privatisation.

14. The regulation was expected to focus on standardisation and service quality. However, the Law No.3/1989 and Government Regulation No. 8/1993 focused on standards and licensing carriers.
15. The aim of launching Law No.3 was to promote privatisation
16. In the current telecommunication industry, the pricing method is not explicitly regulated
17. The debate on regulation style is 'how far the regulator will exercise control routinely' and how far the regulator will act 'by exception'
18. The fundamental issue concerning regulation and innovation concerns whether or not the regulator should intervene to promote innovation.
19. Indonesian privatisation takes the form of partial competition which emphasises only service.
20. In the present telecommunication regulation, privatisation is restricted to reorganisation that reduces barriers to entry.
21. In the present telecommunication regulation, the winner is the producer, and the loser is the customer

22. The role of accounting in the recent telecommunication regulation is to promote competition, rather than reflect social reality.

23. The crisis background of the recent regulation was financing and globalisation. However, business ethics and quality were suggested by study interviewees

24. The components of transition are technology change, demand for service and diffusion of ownership. However, the study's interviewees mentioned the rules of the game in business.

25. The difference between regulation and research data (interviewees' expectations) is caused by differences of perspective:

- interviewees viewed privatisation as a reform of social welfare which affected individuals' economy
- the regulation assumed privatisation to be a method of industrial restructuring

26. The privatisation regulation should be revised toward full competition.

Endnotes

ⁱIn the interview, the power of shareholders was stated as unlimited. On the other hand, the intervention of shareholders was quite common.

ⁱⁱ See on Donald Mason, *Telecommunications Regulation in the United Kingdom & The Role of OFTEL in Implementing Reforms in the Telecommunication Sector*, Wellenius & Stern, 1994, p. 527-541

ⁱⁱⁱ See on Carlos Casaus, 1994, *Privatization of Telecommunication: The Case of Mexico*, in *Implementing Reforms*, Wellenius & Stern, 1994, p. 185-194

^{iv}The analysis was in line with Wellenius (1993)'s papers on *Telecommunications: World Bank Experience and Strategy*, p. 10.

CHAPTER EIGHT

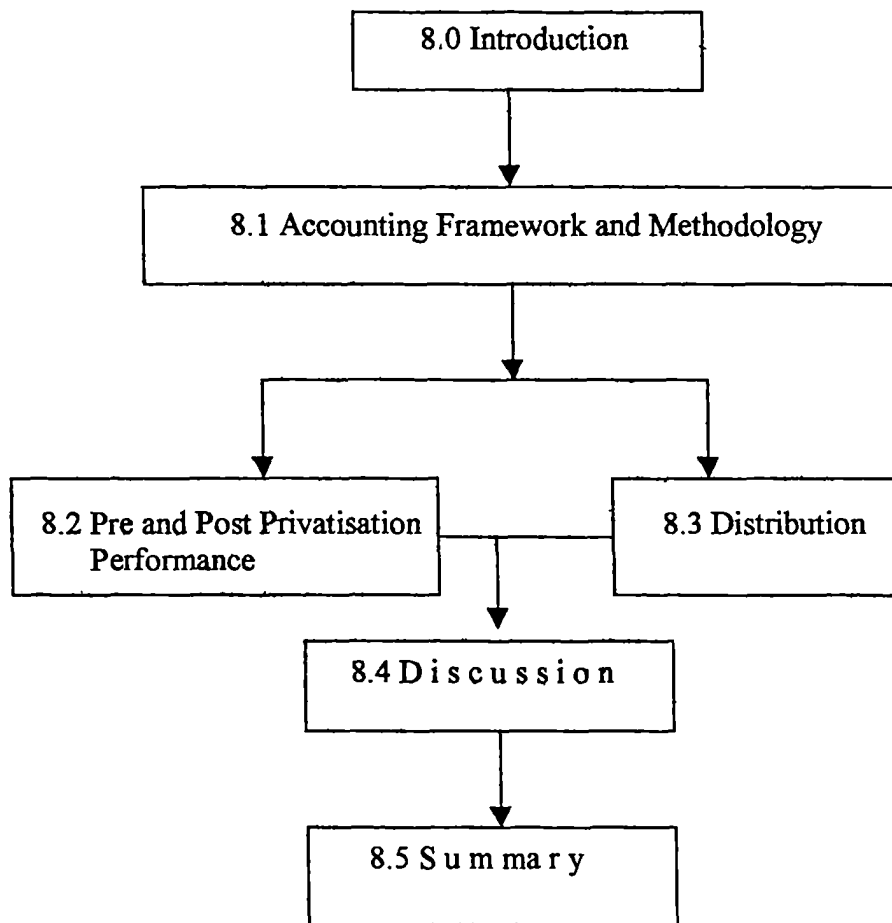
FINANCIAL REPORTING ANALYSIS FOR PRIVATISATION POLICY

8.0 Introduction

The first chapter of the analysis centres on the model of telecommunication privatisation selected by the regulator. The notion of the model was biased in practice. Besides that, efficiency as a goal could not be defined clearly in the industry. The notion of efficiency, as well as its measurement, is ambiguous and problematic (Hopwood, 1990). Efficiency is related to the best ratio of output to cost, in contrast to economy, which is concerned with the lowest possible cost. Because outputs and costs are measured in different units, this means either the best output for a given level of costs or the least cost for a given quality of outputs. This type of debate has affected this Chapter's structure.

The debate over terms, such as efficiency, in accounting, has affected business practice. Differences in understanding lead to unclear goals and action. In this case, the analysis of financial reporting should be begun by defining the accounting framework and methodology (Section 8.1), which govern the stages of analysis of financial reporting. As a result of the discussion in Section 8.1, the analysis is divided into two sections: post privatisation performance (Section 8.2) and distribution (Section 8.3). The content of all these sections will be integrated in the discussion section (Section 8.4). The total outcome of this chapter will be summarised into Section 8.5. Below is a chart showing the structure of the chapter:

Figure 8.1
Structure of Chapter Eight



8.1 Accounting Framework and Methodology

The purpose of this section is to develop a framework for analysis financial reporting in a privatisation content. The starting point of this analysis is on the government's claims: first, that increased efficiency would result, and second, that all would benefit in the best of all possible worlds. So, the notions of efficiency and distribution will be investigated to evaluate the privatisation policy.

Related to efficiency, the cost and revenue sides will be examined critically, focusing on the composition of cost and its trends. Since the notion of efficiency is actually a measurement of cost in relation to product or final outputs, cost containment will be examined in relation to the volume of outputs, followed by an assessment of some non-financial measures of performance. The historical trends, here, will be utilised to assess relative efficiency. This analysis of cost containment and historical trends will show how the management can maintain services in the future, given the industry's monopoly position and the essential nature of telecommunication services.

Related to distribution, the financial benefits accruing to the different stakeholders will be examined. This entails an analysis of the distribution among the various interests groups: stockholders, management, customers, employees and society. Although it is recognised that society as a whole can also be considered an interest group, it will not be included in the analysis of this chapter, as impacts on society are often of a non-financial and even intangible nature, which it is beyond the scope of this study to evaluate.

Both distribution and efficiency will produce an overlap between forms of analysis called as accounting framework. The characteristics of the framework are: (i) uses historical data so that reasonably long term trends can be identified; (ii) focuses on the operational characteristics and net output of the industry, bringing out any particular (or peculiar) characteristics which distinguish it from other industries; (iii) classifies the different kinds of costs - external and internal costs, and capital and labour costs - thereby

identifying the scope for cost containment; (iv) clearly identifies the distribution between the various interest groups; and (v) shows the relationship between performance and distribution. These requirements can be met by using a form of value added accounting in addition to a cash flow analysis.

Value added is normally expressed as the amount generated internally by management during the year. After allowing for bought in goods and services, the residue (the value added) is available for distribution to the stakeholders and for ploughing back into the business as investment. Whereas in Western manufacturing, 70% value added for labour is the norm, no such norm has yet been established for Indonesia.

In this chapter, ratio analysis is applied, looking at: i)the ratio of purchases to revenue (sales), identifying the size of value added fund as the residual after paying for all the purchases (external costs); ii)the internal distribution of value added, starting with the crucial share going to labour and capital maintenance; iii)the external distribution; and iv)the implications of the relationships between sales revenues, the value added fund and its external distribution for the future performance of the industry¹.

The value added approach has the advantage that it is a measure of cash earned by the enterprise as a result of its labour conversion process. As such it avoids some of the problems of creative accounting (Griffiths,1986;Smith,1992) with labour costs plus the amount designated as 'cash flow from operating activities' in the cash flow statement contained in the annual report and accounts. As a measure of cash, it can therefore help

to explain: 1)whether a company is a cash generator or cash sink; 2)whether cash is being produced / absorbed from operating or non-operating activities; 3)how the company is financing any cash shortfall or using any cash surplus; and 4)the quality of the company's profits (Ellis & Williams,1993).

This accounting framework is elaborated more fully elsewhere (Williams et.al,1994,1995). The value added or net output can be calculated either by subtraction as sales revenue less all bought in goods and services, or by addition as labour costs plus depreciation plus the operating surplus or profits before interest and tax. The surplus has to cover tax payments, interest, dividend to the shareholders as well as investment in the business. Management of an enterprise can only increase the surplus by some combination of increasing the sales revenues, changing the activity mix and / or quality of outputs, reducing bought-in goods and services, and lowering depreciation and labour costs.

The accounting data are used to construct a value added and distribution analysis so as to understand the nature of the activity in relation to other business activities, the composition of costs, the particular form of the distribution conflict in the telecommunication industry, the way that the rival claims on the surplus are met in practice and the implications for the delivery of services.

Related to the data, only PT INDOSAT and PT TELKOM have been privatised, in 1994 and 1995 respectively. This means that the financial reporting analysis will focus on

those companies, and no analysis will be carried out of PT INTI's reporting. During the time, the researcher was analysing the collected data, PT INDOSAT made its 1997 annual report available on its web page, so the analysis of PT INDOSAT was extended to 1997. A similar situation existed for PT TELKOM. Before analysing the financial reporting of the two companies, it may be useful to provide brief background information, based on their web publication.

PT INDOSAT

PT. Indonesian Satellite Corporation (INDOSAT) was established in 1967 as an indirect wholly-owned subsidiary of International Telephone and Telegraph Corporation (ITT). In 1969, Indosat commenced its commercial operation and has been the primary provider of international telecommunications services in Indonesia, directly linking Indonesia to approximately 252 countries and destinations worldwide. INDOSAT's principal business is to provide international switched telecommunications services and non-switched international telecommunications services. INDOSAT was selected by the Government of Indonesia to build, transfer and operate for a period of 20 years an Intelsat earth station in Indonesia to access use of Intelsat's capacity on Indian Ocean Region (IOR) satellites. In 1980, ITT sold INDOSAT to the Indonesian Government. After the transfer, INDOSAT became a state-owned limited liability corporation, and the sole provider of international telecommunications in Indonesia. At that time, the Indonesian Government transferred its ownership in INDOSAT's facilities to INDOSAT. In 1982, in order to separate effectively the domestic and international telecommunications networks, all of Perumtel's ownership in international submarine cables and its international operators

and gateway in Jakarta were transferred to INDOSAT and INDOSAT transferred certain assets related to the domestic telecommunications system to Perumtel. In October 1994 INDOSAT completed an initial global public offering of shares. The shares are traded both in Jakarta Stock Exchange (JSX) and New York Stock Exchange (NYSE).

The international history of PT INDOSAT had some advantages for their professional culture. Related to financial reporting, their format and account classification were already established, which meant a gradual development could take place without significantly affecting the account classification and formats. This means that balance sheet, income statement and cash flow statement are comparable.

PT TELKOM

In 1884, the Dutch colonial government established a private company to provide postal services and domestic and, subsequently, international telegraph services. Telephone services were first made available in Indonesia in 1882 and, until 1906, were provided by privately-owned companies pursuant to a 25-year government license. In 1906, the Dutch colonial government formed a government department to assume control of all postal and telecommunications services in Indonesia. In 1961, most of these services were transferred to a newly-established state-owned company to provide postal and telecommunications services in Indonesia apart from services in Sumatra, which were transferred in the 1970s.

The Government separated postal and telecommunications services in 1965 into two

state-owned companies, PN Pos dan Giro, and PN Telekomunikasi, respectively. In 1974, PN Telekomunikasi was further divided into two state-owned companies, Perusahaan Umum Telekomunikasi ("Perumtel") and P.T. Inti, to provide domestic and international telecommunications services and telecommunications equipment manufacturing, respectively. In 1980, the international telecommunications business was transferred from Perumtel to INDOSAT.

In 1991, the Government transformed Perumtel from a "Perusahaan Umum," a state-owned company with public service as its principal corporate purpose, into a "Persero," a state-owned limited liability corporation with a commercial corporate purpose, and renamed it Perusahaan Perseroan (Persero) P.T. Telekomunikasi Indonesia, also known as TELKOM. Prior to 1995, TELKOM's business was segregated into 12 regional operating units, known as "Witels," which were centrally controlled by TELKOM's headquarters in Bandung, West Java. The Witels each had a separate management structure responsible for all aspects of TELKOM's business in their respective regions, from the provision of telephone services to property management and security, although they were not separate profit centres.

As part of the Restructuring, the Company's business activities were divided into three main areas: (i) primary businesses, (ii) related businesses and (iii) business support or corporate overhead services. The Company's primary business is to provide local and domestic long distance telephone services. Related businesses include mobile cellular services, leased lines, telex, satellite transponder leasing, VSAT and certain value-added

services. These related businesses are operated by TELKOM either directly or through joint venture companies in which TELKOM has a direct or indirect interest. Certain analog cellular businesses are operated by TELKOM under revenue sharing arrangements with private investors. It is the Company's intention over time to transfer additional related businesses to joint venture companies. The Company is also planning to outsource certain of its corporate overhead services as part of the Restructuring.

Also, as part of the Restructuring, TELKOM eliminated the Witel structure and created eight operating Divisions on July 1, 1995, consisting of seven Regional Divisions which provide telephone services within their regions and the Network Services Division which provides domestic long distance telephone services through the operation of the nationwide backbone transmission network. Each Division functions under a separate, decentralised management team and as a separate cost or profit centre, maintaining separate internal financial statements. The Company also organised its business support services to provide information services, repair, training and property management to TELKOM's Regional Divisions. Each of Divisions I to VII represents a geographic region of Indonesia as follows: Division I, Sumatra; Division II, Jakarta and the surrounding area; Division III, West Java; Division IV, Central Java; Division V, East Java, including Surabaya; Division VI, Kalimantan; and Division VII, East Indonesia. Divisions I, III, IV, VI and VII are to be operated by the KSO Units in the name of TELKOM and for and on behalf of TELKOM and the KSO Investors commencing January 1, 1996.

The root of PT TELKOM as a colonised 'state-owned company' has produced some disadvantages for its financial reporting. The reporting was gradually developed in terms of format, accounts, and system. In 1989, management has just started getting unqualified opinions from Government Internal Auditor (Badan Pemeriksa Keuangan dan Pembangunan). It seems that the fixed financial reporting system was established in 1994, when the notes to the Annual report for 1995, in the section on Restatement of 1994 Financial Statement, declared:

The financial statements presented herein have been prepared on the restated basis and are significantly different from those previously issued.

As this note clearly indicates, the financial reports before and after 1994 are not comparable. The main impact of the change was on cash flow statements, which show how cash flowed from one activity to another. Thus, the comparison of cash flow statement is limited to financial reporting from 1994 onwards. This fact raised a possibility of some problems in analysing PT TELKOM's financial reporting. To deal with these problems, for some charts the analysis has been limited to the period post 1990, on the basis that: 1) the results of analysis are not affected by data prior to 1990; and, 2) the classification of accounts prior to 1990 is significantly inconsistent with that from 1990 onwards.

An understanding of the background of PT TELKOM and PT INDOSAT yielded two possibilities for analysing privatisation. The first is a report, which combines both companies' financial reporting. Such a report would be a reflection of telecommunication state-owned companies, which have been privatised, instead of the

telecommunication industry. The second possibility is an analysis of each company's financial reporting. The comparison between the two companies and detailed investigation of each company are expected to produce insight into the privatisation process. In this study, the second possibility is preferable. The separate analysis of each company, followed by their comparison, will produce more benefit in relation to the aims of the study.

8.2 Post - Privatisation Performance

The analysis of post privatisation performance will be governed by the concept of efficiency. Derived from the accounting framework, value added will be utilised to investigate the efficiency of the internal mechanism. In this respect, the relationships between working capital, labour and operation are considered, in order to reflect how much the customer benefits from the changes of the privatisation process.

PT INDOSAT

In general terms, the privatisation policy has had a positive impact on the management efficiency (See table 8.1). The average ratio of purchases to sales increased from 43% before privatisation to 52% after privatisation. This means that 9% difference has been produced within the policy. The increase is mainly affected by the increase of sales, by 81% more than that of purchases. It should be noted that performance in the year of floatation, 1994, was suspected of being a mark-up. For this reason, the analysis of PT INDOSAT will cover the years before 1994 and the years after 1994, emitting 1994 itself.

PT INDOSAT**Table 8.1 Sales, purchases and the value added fund**

Year	Sales (thousands Rupiah)	Purchases (thousands Rupiah)	Purchases/Sales	Value Added (thousands Rupiah)
1984	140,732,480	44,451,544	0.32	96,280,936
1985	176,056,152	68,280,477	0.39	107,775,675
1986	193,928,695	80,805,900	0.42	113,122,795
1987	256,690,730	101,665,138	0.40	155,025,592
1988	305,597,113	119,033,913	0.39	186,563,200
1989	348,278,881	142,982,285	0.41	205,296,596
1990	444,212,178	201,219,063	0.45	242,993,115
1991	569,913,028	291,153,839	0.51	278,759,189
1992	689,520,648	342,981,904	0.50	346,538,744
1993	780,293,204	399,816,269	0.51	380,476,935
1994	909,250,657	516,812,750	0.57	392,437,907
1995	1,044,900,000	545,400,000	0.52	499,500,000
1996	1,223,200,000	636,900,000	0.52	586,300,000
1997	1,454,900,000	763,500,000	0.52	691,400,000

The investigation is continued with a critical analysis of factors that affected privatisation performance: value added, labour, capital maintenance and production. First, the value added which reflected the increasing of operational efficiency toward management. It has increased 80% from the average value added before privatisation. The increase is attributable to the increase of pulse volume and price. However, the diversification of core business accelerated the pulse. On the other hand, the application of an adjustment cap price produced a higher price. In this respect, a future trend of value added at around positive 4% is realistic.

As a matter of fact, after privatisation, the average sales increase reduced by 4%. On the other hand, the average purchase increase also reduced, by 14%. This fact reflected a

first trapped on the interpretation of calculation, which combined the control of purchases and sales as a basket of value added funds.

As a note, after privatisation, management started facing competition from Satelindo, a new state-owned company that was subsidised by PT INDOSAT. In this case, INDOSAT's real competitors were multi-national companies. The calling back service has been introduced and applied by many foreign telecommunication companies in Indonesia. In the present situation, because of the foreign exchange rate, the price of call-back services is still higher than that of normal international call. If the foreign exchange rate were to change, it is possible that the situation would be reversed.

Within understanding of risk on the value-added approach, it is highly instructive to see how the value-added fund is shared out (Table 8.2). The most striking factor is that labour accounted for a very low share of the value-added fund (9%) for almost nine years. This is much lower than Western norms, in retailing (40-45%) or manufacturing (70%). Privatisation doubled the share of labour to 20%. This means that the productivity of labour was increased by around 122%.

PT INDOSAT**Table 8.2 Labour Costs and share of the value-added fund**

	Labour / Value Added	Labour Costs (000)	Number employed	Cost per employes (000)
1984	0.06	5,783,041.00	1102	5247.769
1985	0.07	7,295,577.00	1199	6084.718
1986	0.08	9,144,807.00	1342	6814.312
1987	0.07	11,485,495.00	1435	8003.829
1988	0.07	13,542,707.00	1473	9193.963
1989	0.08	15,954,421.00	1534	10400.54
1990	0.10	24,546,526.00	1591	15428.36
1991	0.11	31,157,000.00	1615	19292.26
1992	0.12	40,533,608.00	1704	23787.33
1993	0.11	43,340,681.00	1762	24597.44
1994	0.21	84,329,369.00	1828	46132.04
1995	0.19	95,613,000.00	2255	42400.44
1996	0.19	111,512,000.00	2365	47150.95
1997	0.20	141,164,000.00	2335	60455.67

It is important to understand why labour's share was so low and how this increase was achieved. The average number of employment, 1476 employees before privatisation, was a small number for a company that operated over the whole Indonesia, due to the fact that the industry is highly capital intensive. The management assumed that technology is a key point to produce high value added. After privatisation, the assumption was not changed. On the other hand, the corporate strategy was developed to that of a holding company. Management became involved in many projects and invested in many subsidiary companies. As a result, the average number of employees increased to 2,318. The increased number of employees highly skilled in technology increased the labour share.

The impact of appreciation for labour should compensate the demand for high skill in a

technological environment. The average cost per employee was multiplied by almost four times after privatisation, suggesting that privatisation was accompanied by some combination of an increase in the percentage of highly paid staff, a wage increase for some sections of the workforce, and/or the loss of the less highly paid. These suggest that in the absence of a change in technology or activities, there is relatively little room now for reducing employment levels without affecting service delivery, as most of the improvements in labour utilisation were made in the run up to privatisation.

PT INDOSAT

Table 8.3 Capital Maintenance and the value added fund

	Historic cost	Provision for	Dep + provision	Profit / value
	Depreciation	Renewals	/value added	added
1984	2093320	1345226	0.04	0.68
1985	3821389	2437108	0.06	0.67
1986	4974904	3145426	0.07	0.76
1987	6682849	4196284	0.07	0.74
1988	7943267	3028772	0.06	0.75
1989	14124097	8013860	0.11	0.76
1990	15899407	5904065	0.09	0.75
1991	16333140	11481364	0.10	0.75
1992	19269195	11124475	0.09	0.72
1993	26563485	14721448	0.11	0.68
1994	31016521	19937184	0.13	0.74
1995	42437000	21409000	0.13	0.92
1996	55297000	25955000	0.14	0.89
1997	66942000	39597000	0.15	0.93

The other internal cost, capital maintenance, indicated a relationship between capital working and the value added fund (Table 8.3). The capital maintenance is considered as a charge for depreciation of the physical installation and other assets, and an annualised provision for the renewal of the vast and aging network of infrastructure asset and other operational assets. The cost of renewing and maintaining this is averaged over a period

and charged as an annual expense.

Privatisation stimulated an increase of capital maintenance share on value added of around 78%. Management stressed the balance of service and investment, which is reflected in the relatively close progress of depreciation (366%) and renewals (343%). This condition developed an understanding of the management strategy to maintain the current service and still develop the investment, especially in technology and catching new market shares through subsidiaries.

Costs in order of importance were therefore: purchases, labour, depreciation, and renewals, and accounted for 111p, 19p, 9p, 4p, respectively of every rupiah of revenues in 1995. The key cost to control was therefore purchases. Yet if we consider those costs, in principle at least, amenable to management control, purchases have risen by 114%, labour costs by 24%% and renewal provision by 9,5% since 1995-1997. That is, the results are paradoxical: 'the greatest cost control was achieved in the areas that contributed the least to overall costs'. A similar phenomenon occurred in the period 1991-1993; purchases rose by 94%, labour costs by 11% and renewal provision by 2,8%.

The really extraordinary feature of the company is that the largest share of the value added fund is profit available for distribution to the remaining stakeholders, averaging 91% for the 3 years' period after privatisation. Such a high ratio of profit to value added, also occurred under public ownership (72%). It is a result of the very unusual cost structure referred to earlier.

However, several points of the situations after privatisation need to be considered to explain this. First, this increase in profitability reflects mainly an increase in sales revenue and volume of outputs. The outcome of subsidiaries' operations contributed to the increasing of pulse. Second, there was a slower trend in the labour utilisation and external costs. Third, profitability is no greater than that obtained in the year of privatisation. Fourth, profitability has increased very slowly, due to the high rate of expenditure on renewals. These factors taken together mean that the increase in profitability reflects an industry, which has been only *partially transformed* by ownership change.

The analysis has considered labour costs and capital maintenance independently. However, the argument has been made that there is a future trend of trade off between operating costs and capital expenditure in a radically transformed ownership, and that it was possible to have lower overall cost by taking a frugal approach to capital investment at the expense of higher operating costs but with lower overall costs (MMC,1995). Therefore an analysis of the relationship between expenditure on the physical installations and assets, and operating costs would be useful. However, there is no publicly available study that investigates the relationship between operating costs and capital maintenance.

Finally, the company's costs need to be considered in the context of output measures (Table 8.4). PT INDOSAT's annual reporting generates a confidence in service quality. Since management actually operates in the international gateways, the quality

of service is more determined by the domestic carriers, PT TELKOM, and other foreign domestic carrier. On the other hand, management has established permanent and high quality installations, such as sea cable and satellite. With high technology, the accuracy of service delivery is quite high. In this case, PT INDOSAT guarantees a quality of service implicitly in its disclosure reporting.

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Table 8.4 Volume of service delivered

	1997	1996	1995	1994	1993	1992	1991
Telephone (in thousands minutes)							
Incoming	385800000	3.3E+08		2.45E+08			
Outgoing	298100000	2.5E+08		1.83E+08			
total	683900000	5.8E+08	4.9E+08	4.27E+08	3.5E+08	3E+08	2.3E+08
Telex (in million minutes)	5400000	6100000		9088967	12795393	2E+07	1.7E+07
Telegraph (in million words)	1800000	2400000		2752528	3378856	5E+06	5149540
High Speed Leased Lines (circuits)	572	397		134	42	50	53
Low Speed Subscription (circuits)	32	46		67	41	50	72
Data Network (PSDN in million minutes)	2100000	1800000		3605744	3648740	2E+06	2106366
Telecast Services (in thousand minutes)	110400	106700			51506	76150	55155
Others				99384			
IBS /VSAT (customers)					94	60	30

The key to maintaining efficiency is the diversification of the core business. The new products High Speed Leased Line and Data Network, provided an excellent opportunities. The increase in High Speed Leased Line production from 1996-1997 was about 44%, compared with a 17% of increase on the Data Network. This means that High Speed Leased Line has the highest demand in the short term, so the focus of marketing strategy

on the product should be maintained, especially to slow the maturity of the product cycle. On the other hand, the Data Network product is promising, especially for research and development. The product can be interpreted as being in the initial stage, which opens the possibility to diversify the product form in many varieties. So, the focus on a core and two promising products would produce stable progress.

Conversely, two old products, telegram and telex, showed a decrease in production. In the study interviews, some telecommunication practitioners described both products as 'dying'. Telex production is reduced by 12% and telegraph by 25%. This means that telex and telegraph are less attached services for customers, who prefer to move to other advanced services. In the light of technological advance, these products are becoming less competitive compared to other PT INDOSAT's products. An elimination strategy for both products should be formulated in the context of capital depreciation and efficiency.

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Table 8.5 Unit costs per minute telephone

	1997	1996	1995	1994	1993	1992	1991	1990
Cost to customers	1.7718	1.6687	1.5980	1.2179	1.2338	1.2162	1.2561	1.1209
Cost of operations	1.1164	1.1041	1.1074	0.8151	0.8410	0.8641	0.9362	0.8238
Capital maintenance	0.1558	0.1409	0.1296	0.1193	0.1179	0.1018	0.1185	0.1215
Return on capital	0.4996	0.4237	0.3610	0.2836	0.2749	0.2504	0.2014	0.1756

An accumulation of analysis on the performance can be critically seen from cost to customers' analysis (Table 8.5) In the first stage, the Return on Capital has increased by around 90% after privatisation, mainly due to an increase in assets by nearly 100%, instead of profit margin. This condition is advantageous for investors and stockholders.

In terms of cost of operations, it seems that efficiency has declined since privatisation. The management passed the normal limit, one, in 1995 which means that privatisation did not stimulate operation cost efficiency. The impact of inefficiency is a burden for customers, who are placed in a disadvantaged position.

The claim of efficiency for PT INDOSAT's privatisation should be questioned. In fact, the increase of the average customer burden by 39%, can be viewed as reflecting 'lower efficiency after privatisation'. The tendency of increasing cost to customers, 11% difference, gives rise to a similar interpretation. Since Indonesian people are the majority of customers, the industry should be reoriented toward customers. Instead of increasing, the cost to customers should move to one, as a normal limit.

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Sales revenues increased steadily over almost the entire period but there was a drop in the average percentage of sales increase after privatisation (Table 8.6). It is important to note that: firstly, the sales revenues in 1996 decreased by 1%; secondly, in the Indonesian monetary crisis, 1997, sales revenues increased by 16%; thirdly, the peak increase in sales revenues was in 1991. Therefore, privatisation did not promote effective progress in market share.

As a general overview, privatisation had a positive impact on the ratio of purchases to sales. The average cost of bought-in goods and services (external costs) increase by 73%

after privatisation. It seems that the acceleration of purchases reduced in subsequent years; for example, in 1996 it dropped by 21%. In this case, efficiency in external costs was developed. On the other hand, the average sales revenue increased by 116% after privatisation. At this stage, the combined impact of privatisation on sales and external costs can be calculated. The average ratio of purchases to sales before privatisation was 80%. After privatisation, the ratio became 63%, which is comparable to manufacturing industry (60-70%) and retailing (80%). The decreasing ratio is due to a successful strategy to reduce long-term dependency on external services, for example by initiating 'in house' training and research. The significance of the decrease in the ratio is that it permits a high value added fund and potentially high profits.

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Table 8.6 Sales, purchases and the value-added fund

	Sales (thousands Rupiah)	Purchases (thousands Rupiah)	Purchases/Sales	Value Added (thousands Rupiah)
1990	1,293,048,747	1,129,478,858	0.87	163,569,889
1991	1,856,003,000	1,483,008,000	0.80	372,995,000
1992	2,281,692,114	1,893,232,088	0.83	388,460,026
1993	2,919,564,000	2,395,567,000	0.82	523,997,000
1994	4,043,000,000	2,739,000,000	0.68	1,304,000,000
1995	5,105,069,000	3,714,833,000	0.73	1,390,236,000
1996	5,075,799,000	2,926,737,000	0.58	2,149,062,000
1997	5,909,026,000	3,382,623,000	0.57	2,526,403,000

As regards value added, in line with the ratio of purchases to sales, the average of value added increased by 267%. With KSO arrangements, management had created partners to develop the market. In the absence of new products and competitors whose market share might be captured, sales revenue and, in turn, value added, could only be increased if prices increased and there was a significant contribution from KSOs' performance. Thus,

the performance of KSOs was quite significant for management. On the other hand, the price formula was absolutely crucial in determining revenues. To support the interest of government and management, a price cap was converted to a price cap adjustment referred to a double evaluation for inflation inside the customer price index. Since the price formulation was determined in the Ministry Regulation, the customers were in a weak position to argue.

As a note, the average percentage of value added increase indicated a decrease of 56%. This means that in subsequent years, the tendency in value added was negative. In such a case, the operational efficiency should be carefully investigated. The contribution of each programme to the operational efficiency of management should be considered.

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Table 8.7 Volume of service delivered

	1997	1996	1995	1994	1993	1992	1991	1990	1989
Telephone									
pulse (in thousands minutes)	50700000	42300000	28257000	23921000	18558000	14708000	11357000	10752000	8701000
number of subscriptions (line unit)	4815742	4051488	3290854	2459693	1808940	1652378	1295002	1054201	883485
Physical Installation (line unit)	6523724	5808849	4467291	1040525	817862	635122	406272	217908	173300
Successful Call Rate (SCR)									
Local (%)	60.43	57.9	55.2	52.66	44.7	41.61	32.85	29.25	23.41
SLJJ (%)	56.46	53.21	47.6	42.68	36.29	26.01	12.25	10.51	12.09

Economic conditions, population, technology, business environment, politics and national stability largely externally determined the operating performance (Table8.7). The company's performance, whether sales, purchases or value added, should be considered in the context of output measures. In domestic telecommunication, the successful call rate and waiting list were recognised as main indicators. In fact, the management only

disclosed successful call rate (SCR) as a service indicator. SCR increased steadily over the entire period, but more rapidly after privatisation. In local calls, the average SCR before privatisation was 37% and after privatisation it was 54%. For long distance connections, the average SCR before privatisation was 23% and after privatisation it was 52%. In this case, the purpose of physical installation development was to spread telephone facilities. In line with the development strategy, the local call experienced greater advantage, as the basic type of connection. It is noteworthy that the SCR was still behind other countries, especially Singapore and Malaysia.

The priority on physical installation can be indicated from the development of subscription and KSOs' strategy. The average number of subscriptions was increased by 163% after privatisation. This can be divided into PT TELKOM's performance and KSOs' performance. As an industry with a high growth rate, 7%, telecommunication is needed anywhere, by all sectors and all professions. In this situation, the waiting list should be considered as another main service indicator.

The development of cellular telephones assisted the waiting list problem. PT TELKOM is involved in the cellular telephone business through its subsidiary company. A high price of installation and service make cellular telephones as luxury and prestige goods, rather than communication tools. A combination strategy of fixed and cellular telephone, adopted by the regulator, might be effective to solve waiting list problems.

PT TELKOM**Table 8.8 Labour Costs and share of the value added fund**

	Labour / Value Added	Labour Costs	Number employed	Cost per employees
		(000)		(000)
1990	2.8428	465,002,300	39463	11783.2
1991	1.1184	417,161,427	39520	10555.7
1992	1.8149	705,000,000	39298	17939.8
1993	1.6427	860,796,000	39048	22044.6
1994	0.8655	1,128,594,000	42170	26763.0
1995	1.2748	1,772,281,000	37584	47155.2
1996	0.3664	787,449,000	37644	20918.3
1997	0.3355	847,492,000	37974	22317.7

*Estimates = 88% of General and Administration
Expenses*

The development of KSOs and technology makes PT TELKOM capital intensive, with a high ratio on the value added. It is therefore very important to see how the value-added fund is shared out (Table 8.8). The most surprising factor is that before privatisation, the average ratio of labour to value added was 166%, above one as the normal limit. This means that labour expenses surpassed the available value added fund. In other words, labour expenses were very costly.

It is important to understand why labour's share is so costly and how this problem was solved. The total employment in 1995 was 37644, unusually high for an industry of a capital intensive character. This was due to the fact that PT TELKOM was a public enterprise with an obligation to create jobs. Employment fell by 0.6% in 1992 and 1993. It also fell by 10.9% in 1995. This reduction in employment resulted in an increase in

labour's share of value added from 86% in 1994 to 127% in 1995. The real impact was felt in the years after privatisation. In 1996, even though the number of employees increased by 0.16%, labour's share of value added reduced from 71% to 36%. This situation was similar in 1997, when the employment increased by 0.8% and the labour's share decreased to 33.5%.

A further 10.9% fall in employment occurred at privatisation. This was due in part to an early retirement programme and elimination of pension. The early retirement programme created vacancies that supported a zero growth in the number of employees. The pension was replaced by early compensation for some years ahead, which eliminated uncertainty and contributed the cost of pension management. Both programmes were successful in reducing labour costs. After privatisation, the average ratio of labour to value added became 65.9%, which is comparable to Western manufacturing norm, 70%.

The decline in the labour's share of value added after privatisation, suggests that privatisation was accompanied by some combination of an increase in the percentage of highly paid staff and the loss of the less highly paid. This phenomenon suggests that in the absence of a change in technology or activities, there is relatively little possibility now for reducing employment levels without affecting service delivery as most of the improvements in labour utilisation were made in the run up to privatisation. The level of labour costs after privatisation means that shedding labour in the future will have relatively less impact on the surplus.

PT TELKOM**Table 8.9 Capital Maintenance and the value added fund**

	Historic cost Depreciation	Provision for Renewals	Depreciation + provision /value added	Profit / value Added
1990	524787682	62702537	2.42	0.75
1991	244193533	24766201	0.96	0.75
1992	987880417	90210446	3.11	0.72
1993	787830000	283496000	2.82	0.68
1994	992209000	364130000	3.46	0.74
1995	1170885000	457854000	3.26	1.81
1996	1401484000	386519000	3.05	2.56
1997	1696680000	125164000	0.72	0.46

The other internal cost is capital maintenance, which consists of a charge for depreciation and an annualised provision for the renewal of the vast and aging network of infrastructure assets and other operating assets (Table 8.9). The cost of renewing and maintaining this is averaged over a period and charged as annual expenses. This is shown in the accounts as a 'provision' and is not, therefore, an accurate reflection of the actual expenditure in any one year, as a comparison of the provision and cash spent reveals, although the over and underspend should balance out in the long term.

In line with the labour share of value added funds before privatisation, a high capital maintenance share of value added was experienced by PT TELKOM. Since 1992, management had surpassed the normal limit, one. The peak in capital maintenance was 3.46 in 1994, the year before privatisation. In privatisation, capital maintenance's share of value added was reduced by 6% to 3.26. The year after, 1996, a further 6% reduction was made. In 1997, the reduction became bigger, 76%, meaning that capital maintenance's

share of value added was 72%.

It is of interest to understand why capital maintenance's share was so expensive and how the reduction was achieved. Two common practices in the public sector that have been identified by experts and confirmed by some practitioners can be mentioned here. The first is obsolete technology, caused by lack of careful planning of equipment purchases, for example: buying equipment, for which components are difficult to find. The second is mark-up price. Both factors should be carefully investigated. However, considering the culture and bureaucracy, a study on obsolete technology and mark-up in public sector enterprises, such as PT TELKOM, will face a difficulty.

The relation between capital maintenance's share and renewals was very close. A reduction in the percentage increase of capital maintenance caused a reduction in the capital maintenance share of value added funds. In 1995 the capital maintenance increase dropped by 3% from the previous year's level. So, the share of capital maintenance was reduced by 6%. The situation was repeated for 1996. The only difference was for 1997, when the Indonesian economy experienced a critical monetary crisis. Purchase and renewal of some equipment was delayed, which caused a great reduction in renewal expenses, around 67%. In turn, the reduction caused a big decrease in capital maintenance share. This means that privatisation was less effective in reducing the cost of capital maintenance.

It is very difficult to regulate cost in an inefficient environment. Costs in order of

importance were therefore: purchases, labour, and renewals, and accounted for 114p, 47p and 14p, respectively of every rupiah of revenues in 1994. If these costs are a main concern, in principle, at least, for management control, purchases have increased by 14%, labour costs by 31% and renewals by 26% from 1993. Compared to 1996, a year after privatisation and with higher inflation, the costs in order of importance were purchases, labour and renewals, accounting for 69p, 19p, and 9p, respectively of every rupiah of revenues. At least, for management control, purchases have reduced 21%, labour costs by 56%, and renewal provision by 15.6%. The key costs to control were therefore purchases and / or labour. This analysis suggested that the private sector had no monopoly on cost cutting techniques.

The really extraordinary feature of the management is that the profit which was available for distribution to the remaining stakeholders, surpassed value-added funds in the year of privatisation. A similar situation, indeed, a 41% increase over 1995, occurred in 1996. This condition can be interpreted as meaning: first, the non-operating income was significant, possibly bigger than the operating income; second, the performance of subsidiary' companies and KSOs contributed significantly to total income. Since the core business performance produced only around fifty percent of the profit, the dependency on KSOs and subsidiary companies is evident. In 1997, this dependency produced a significant decrease in the ratio of profit's share of value added, around 82%. The monetary crisis caused a drop in the performance of subsidiary companies and KSOs. The impact was a significant reduction on non-operating income which, in turn, affected total profit.

These phenomena in profit and capital maintenance suggested that privatisation promoted a combination of creating new sources of incomes and dependency of management on its subsidiaries' and partners' performance. This condition created a transfer of technology and capability of managing the development of industry, mainly to subsidiaries and partners. In the long term, the management capability of the core business will be diminished. This suggests that in the absence of a change in policy and business development, there was relatively little room for developing management's capability without affecting the capability of subsidiaries and partners. As a bottom line, the increase in profitability did not reflect the company, which has been *radically transformed* by ownership change.

The analysis has considered labour costs and capital maintenance independently. The argument on the close relation between provision for renewals and capital maintenance's share demonstrated the possibility of a trade-off between operating costs and (past) capital expenditure. This means lower overall costs could be produced by taking a frugal approach to capital investment at the expense of higher operating costs. Therefore, an analysis of the relationship between expenditure on the network installation and other operating assets, and operating costs would be useful. However, there is no publicly available study that investigates the relationship between operating costs and capital maintenance.

PT TELKOM**Table 8.10 Unit costs per minute telephone**

	1997	1996	1995	1994	1993	1992	1991	1990
Cost to customers	102.879	111.653	189.231	171.352	186.896	202.056	154.270	174.916
Cost of operations	66.718	69.190	131.466	114.534	129.085	128.721	130.581	120.261
Capital maintenance	35.934	42.270	57.640	56.701	57.729	73.300	23.682	54.640
Return on capital	0.227	0.193	0.125	0.117	0.082	0.035	0.007	0.015

An understanding of the cost structure of PT TELKOM encouraged further investigation.

Privatisation promoted the success and failure of management control. In labour cost, a downturn in cost has been remarked as an outstanding solution to the labour problem. In the case of capital maintenance, a difficulty in reversing the inefficiency was indicated as a failure to reform the cost structure. In this case, it is very important to reflect those results in the cost to customers (Table 8.10).

Return on capital increased steadily over the entire period but less rapidly after privatisation. It is important to note that: firstly, the increase was produced by the average increase of net profit margin, of which was 95.6% and total assets turnover was even bigger, 113.7%; secondly, after privatisation, the average percentage of return on capital increase was reduced from 129% to 26%, which means a slow acceleration in the growth of return on capital; thirdly, the increase in the unit of net profit margin and total assets reflected the fact that 'the development of service volume was less than the increase of activities'.

The high cost of capital maintenance affected the overall cost of operations. Difficulty in making efficient provision for renewals caused the high cost of operations. In this case,

the analysis should look at factors beyond cost structure, like the character of business practice of PT TELKOM. In supply, PT TELKOM experienced a monopoly on the domestic telephone that insured the revenue capacity and investment facilities for developing the domestic telecommunication industry. In this case, creditors and government as facilitator determined the growth attitude, which was usually less competitive than the impact of competition. On the demand side, PT TELKOM experienced monopoly as the biggest purchaser of most telecommunication equipment, the only setter to propose the equipment and service, and holder of the exclusive licence to set facilities for the development of domestic telecommunication. It should be noted that because of government intervention in business policy and personnel promotion, bureaucracy was entrenched in the management.

The high cost of operations resulted in very costly services. This means the customers had to cover the cost of management inefficiency. The unit costs to customers were much higher than the normal standard limit, one. In 1992, the figure reached 202,058, which means two hundred' times the normal limit. The costs to customers decreased over the subsequent years, 1993-1997. In 1997, the costs to customers reached 102,879. Besides that, the average costs to customers after privatisation increased only 72%, which means that after privatisation, costs to customers dropped more rapidly. This analysis shows the expensive cost structure and lack of real competition, providing little scope for major gains in efficiency, irrespective of ownership change. It does not support a claim of a major improvement in performance.

8.3 Distribution

The telecommunication industry usually experienced high value added for distribution (more than 50%). The SOEs are always large in size.

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The company's unusually high proportion of value added available for distribution (89-93%), as well as its absolute size, makes it unique and, in principle at least, more able than other companies to satisfy the numerous and conflicting demands for tax, interest, investment, dividends and growth.

Table 8.11 shows the cash flow statement for the years before and after privatisation. Cash from operations is the amount remaining after the costs of purchases and labour, but before the cost of renewals, have been deducted. Even though some tax reforms were launched after privatisation, the tax burden was quite stable. The formal rate of tax for the PT INDOSAT is around 25-35%, and the effective tax rate is expected to be around 23-33% for some time. Thus the government has lost a source of revenue to fund state services. Although under public ownership, the management did not pay tax, the surplus did go to fund state services.

The largest claim on funds came from the investment programme. The average investment was Rp. 316 billion after allowing for renewal and disposals. Privatisation caused the average investment to multiply substantially, by 171%. The investment goal was pursued in subsequent years. It was reflected by the increasing percentage of

investment growth, to 645%. In this case, privatisation promoted the government's target in developing technology and physical installation. So, the investment was prepared for a long-term strategy of high competition in technology and supporting facilities.

During privatisation, the strategy of diversification strategy of the core business was examined seriously. The average investment on the subsidiary companies was reduced by 98% after privatisation. The average percentage of increase on the subsidiary's investment also negative at 112%. A conservative approach impeded management effort to intervene on competitors' market or create of new market share. It seems that management reserved its high profile for financial matters.

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Table 8.11 Cash flow statement
(thousands Rupiahs)

		1997	1996	1995	1994	1993	1992	1991
Cash from activities								
Returns		640756000	521685000	459431000	852500000	748706974	602818624	520166150
Net interest		57250000	62170000	72770000	7045693	2005790	1695051	4019385
Dividends to plcs		191381000	142050000	152964000	172445311	153032784	80641036	133942272
Total returns		443650000	373418000	299190000	673008996	593668400	520482537	382204493
Tax		195762000	164573000	103829000	161263685	141704603	121341160	102720667
Net cash		247888000	208845000	195361000	511745311	451963797	399141377	279483826
Investment activities								
Fixed assets		578111000	244260000	130234000	89783211	78293253	132548019	63537668
Subsidiaries		110171	256017	175579	1342034	23722724	5788069	818973
Renewals		-132000	-4384000	-49000	4931000	6119353	5800077	3693237
Disposals								
Others		15084	10000		1217743	4503869	5798479	18477949
Total		578104255	240142017	130360579	97273988	112639199	149934644	86527827
Net cash		825992255	448987017	325721579	609019299	564602996	549076021	366011653
Financing								
Loans		148950000	4990000		1217743	26137574	22730929	
Share issue		5417000	2078000	3214000	681584158			
Others					18960000	18230978	14219068	37504942
Total		154367000	7068000	3214000	701761901	44368552	36949997	37504942
Net cash		980359255	456055017	328935579	1310781200	608971548	586026018	403516595

It is difficult to avoid the conclusion that inflated investment programmes provided the basis for higher prices. The monetary crisis in 1997 justified this matter. While the company can make an application to have price tariffs revised if investment increases, the customer, via the regulator, has no similar redress when investment turns out to be less expensive than expected. In practice, therefore, the change of ownership meant that the cost savings on the investment programme benefited the owners, not the consumers.

In addition to the expenditure on investment, was the payment of dividends to the

stockholders. The average dividend payout to stockholders was Rp. 162 billion, an increase of 32% compared to the average number before privatisation. On the other hand, the average ratio of dividend to profit was reduced significantly from 51% to 31%. A twenty percents reduction was shifted to pay interest of around Rp. 6 billion. The average share of interest in profit was maintained at around 1%, before and after privatisation. Related to this fact, the average tax was Rp. 154 billion, an increase of 26% compared to the average before privatisation. In this case, the average ratio of tax to profit was reduced by 22% from around a half of profit to 28%. This means that privatisation produced a combination of reduction of the share of profit into tax and dividends.

The total cash generated by operating activities was more than the expenditure on new capital equipment and infrastructure renewals (Table 8.3). In other words, the company could have covered this entirely from revenues and spent the remainder on additional infrastructure renewals if they had had not had to satisfy the demands imposed by private ownership for dividends and future dividend growth. As it was, the only way that the conflicting demands could be met was by borrowing. The loans constitute a charge on the surplus created by the company, which will intensify the conflict over the distribution of the surplus in the future and in turn necessitate higher prices if all these claims are to be met.

The above analysis refutes the claim that private ownership would benefit the company, industry, nation and customer. It demonstrates that the real beneficiaries of the change in ownership were the new owners. More importantly, the benefits of privatisation had

more to do with the terms of the privatisation settlement, including regulation, than with the efficiency initiatives introduced by management itself.

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The unusually high proportion of value added available for distribution (averaging 161% after privatisation), as well as its absolute size, makes PT TELKOM at least more able than other companies to fulfil conflicting demands for tax, interest, investment, dividends and growth. Table 8.12, below, shows the cash flow statement for the period 1994-1997.

Cash from operating is the amount remaining after the costs of purchases and labour, but before provision for renewals, have been deducted. In tax, some tax reform had been launched during a four-year period. In public ownership, all surplus was going to the government. It seems that these practices were continued until 1994, the year before privatisation. The effective tax rate in 1994 was around 78%. After privatisation, the implementation of tax rate became very transparent. Since the auditor was not from the government side, the management had to declare the income tax. In 1995, the effective tax rate was 35%, which was equal to the official tax rate. In 1996, it decreased to 23%. In 1997, it rose to 38%, above the official rate. Thus, the government has lost a source of revenue to fund the services of the state. Privatisation has caused a loss to the government of around 46% in the average ratio of tax to profit.

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Table 8.12 Cash flow statement (thousands Rupiahs)

		1997	1996	1995	1994
Cash from activities					
Returns		2646524000	3187481000	2646524000	1569145000
Net interest		538439000	421337000	377588000	251305000
Dividends to plcs		400771000	134619000	127434000	85000000
Total returns		1707314000	2631525000	2141502000	1232840000
Tax		440160000	355652000	316922000	226754000
Net cash		1267154000	2275873000	1824580000	1006086000
Investment activities					
Fixed assets		2948349000	3231906000	2642611000	953177000
Subsidiaries		1030882000	638309000	1385078000	324480000
Renewals (Disposal)		-27213000	-38146000	134013000	97571000
Others		27936000	341901000	4820000	28736000
Total		3979954000	4173970000	4166522000	1403964000
Net cash		5247108000	6449843000	5991102000	2410050000
Financing					
Loans		403297000	337747000	330120000	339248000
Share issue				1778919000	
Others		-461740000	486367000	80774000	375674000
Total		-58443000	824114000	2189813000	714922000
Net cash		5188665000	7273957000	8180915000	3124972000

The largest claim on funds came from the investment programmes. In 1994, total investment was Rp. 1,403 billion after allowing for capital grants and transfers. However, in the year of privatisation, the figure increased by around 197%. In subsequent years, 1996 and 1997, the figure decreased by 0.1% and 4.6% respectively. These conditions were in line with capital maintenance's share of value added.

It is important to know why the tendency of investment was negative after privatisation.

The only explanation was in the Annual Reports for 1997, p.49:

These expenditures include amounts, which TELKOM plans to spend on installing transmission facilities in the KSO Divisions as well as its projected expenditures in the Non-KSO Divisions. However, these figures exclude the amounts which the KSO Investors are expected to expand in the KSO Divisions.

It seems that a similar reason accounts for 1996's figures. The notion of delivering an investment responsibility in the hand of partners was found. These facts suggest that privatisation promoted less investment for the development of core business and shifted a part of telecommunication growth to the KSOs' partners. Instead of shifting the funds to technology research and development, management favoured a decrease of investment funding. In the long term, dependency on imported technologies and KSO's partners will be disadvantageous for management.

In addition to the expenditure on the investment was the payment of dividends. Before privatisation, the dividend's share of profit which was delivered to the government was around 29%. After privatisation, the percentage was reduced to 14% in 1995 and 9% in 1996. The dividend's share of profit was lower than the percentage of tax on profit. Most years, total tax was more than twice dividends. In reverse, the net interest's share of profit was greater than the share of tax and dividends. The obligation of management to repay the loans was around Rp. 251 billion. The figure was increased in subsequent years, but in percentage of profit, the share of net interest was reduced to 41% in 1995 and 28% in 1996. In management control principles, the obligations to external institutions, in order of importance were, therefore: interest, tax and dividends.

The total cash generated by operating activities was more than the provision for

renewals (Table 8.9). In other words, the company could have covered this entirely from revenues and spent the remainder on additional infrastructure renewals, even if they had to satisfy the demands imposed by private ownership for dividends and future dividend growth. It can be concluded that the borrowing was actually not needed.

A reduction of investment and sufficient operating activities legitimated stable, even lower, prices in the telephone service. This means the increased prices of local and long distance calls in 1996 and 1997 were not caused by higher investment or loans, but mostly by inefficiency of cost structure. In other words, the enlargement of cost saving on the investment programme and high cash on the operating activities covered the inefficiency cost and benefited the owners and / or KSOs' partners, not the consumers.

This analysis refutes the claim that private ownership would benefit management, government and customers. It demonstrates that the real beneficiaries of the change in ownership were the new owners. In terms of the objective of this study, the benefits of privatisation had more to do with the terms of the privatisation settlement, including regulation, than with the efficiency initiatives claimed by government.

8.4 Discussion

The chapter set out to evaluate two claims made of the privatisation policy: first, that increased efficiency would result, and second, that all would benefit in the best of all possible worlds. Privatisation in Indonesia can be characterised as ownership change from fully State Owned Companies to partially SOEs or private ownership companies.

The analysis has refuted the claim that private ownership would increase the efficiency of PT INDOSAT and PT TELKOM, and that ownership is the most important factor in determining performance. It demonstrated that the pattern of demand, the business activities of the company, their associated labour content, and the slow rate of technology innovation, provided little scope for major gains in efficiency. Efficiency could not and cannot endlessly be increased. The study showed that private sector management has no monopoly in techniques to improve efficiency or cost cutting. Gains in efficiency were obtained under public sector management for PT INDOSAT. On the other hand, PT TELKOM started reducing inefficiency under public ownership. These findings call into question the claims that publicly run telecommunication companies are intrinsically more inefficient. By considering efficiency in relation to the activities of specific industry, some questions and ambiguities about its meaning(s) and measurement emerge.

Second, the analysis refuted the claim that all would benefit. Consumers found that prices rose, workers lost their jobs, and the government, in effect, made a huge loss by gaining nothing from tax revenues, despite the profits. The increase of telephone lines and services was not the result of privatisation, but of the World Bank directives and were specifically paid for by consumers. Furthermore, the increase in the investment programme in PT INDOSAT required more sacrifice from customers. On the other hand, the lower investment in PT TELKOM did not present an advantage for customers.

The government's claims ignored the conflicting demands of the numerous stakeholders

and the particular characteristics of the telecommunication industry. In these circumstances it was, and is, impossible to reconcile all the conflicting claims on the surplus and to protect the customer. Regulation allowed a resolution of this problem. It ensured that priority was given to the shareholders, under the guise of consumer protection and efficiency incentives. Thus, privatisation was at the expense of the public both as consumers and tax-payers, as well as workforce. In other words, privatisation promoted 'concentrating the benefits and diffusing the costs' (Vickers & Yarrow, 1988; Pint, 1990).

In PT INDOSAT, the source of the problem was not management and regulation, but an insufficient pool of value added, relative to the amount of capital invested in the industry, to meet all claims consequent upon privatisation. In addition, the lack of competition had stimulated a tolerance of higher price. This means that the efficiency can be expected to increase in a much more competitive situation.

In PT TELKOM, the source of the problem was the inefficiency of management activities. The real impact was on the cost structure, which contained expensive capital expenditure. With lack of competition and high dependency on partners' and subsidiaries' performance, the development of management capability was directed to an uncertain goal. In this situation, a reform of internal management, especially investment and capital expenditure activities, will be necessary.

This analysis suggests that the success of privatisation in general depends upon the size

of the value added fund, its ability to grow to meet all the claims upon the surplus, and normal cost structure. Efficiency is capable only to provide a limited source of growth and for a relatively short period. The normal cost structure can be interpreted as: firstly, healthy condition and practice of financial management; secondly, a regular cycle of good management practice. This is the bottom line of privatisation. Privatisation and its consequences have increased the social, economic and political conflicts. The struggle between the stakeholders appears likely to intensify. It is an outcome far removed from that which was supposed to flow from the change in ownership and superior private sector management techniques. This analysis suggests that the solution lay in excluding the claims of one of the stakeholders – the new owners.

Lessons from United Kingdom. As indicated in Chapter Two, most government always campaigned some successful facts of privatisation. In the UK, the claims were rejected. Instead of raising government revenue, '*... this policy has been costly to the tax payer*', according to many economic analysts.ⁱⁱ The loss of customers was also noted by:

In fact, consumer complaints increased markedly in almost all the privatised companies as consumers found they were paying more for services which often had been reduced. (Clarke, 1993, p. 221)

As a case in point, BT, in 1987/88, only repaired 23 per cent of the phone boxes that were out of order.

The UK lesson suggests that privatisation is a contradictory policy. This means that planning for the public policy should take all involved agents into account. When the Indonesian government launched privatisation, the focus was only on raising revenue.

This means that the negative and positive impacts after privatisation were not considered. For example, a controversy on the CEO's arose in PT Telkom.ⁱⁱⁱ The discount and shadow buying on selling shares have created an image of failure of the privatisation process. Without any understanding of privatisation's features and the trade mechanism in share floating, the controversy became a focus of tension between government and SOEs. In such a case, the evaluation criteria and procedure of matters of public policy, like privatisation, should be decided by regulation, in order to avoid controversy after the privatisation process.

Implementing The Accounting Framework.

Related to Theoretical Framework, privatisation has been characterised as universal. This means that accounting framework for this study can be implemented to other companies in other countries. In this case, NTT – Japanese Telecommunication Company and Telstra – Australia Telecommunication Company provided some data to approve applicability of the accounting framework. In table 8.13 and 8.14, the annual reports of Telstra and NTT for 1996 and 1997 have been examined, in order to obtain privatisation ratio. (See APPENDIX – data processing sheet)

Table 8.13
1996 - Ratio of Privatisation

1996	Purchases / Sales	Labour/Value Added	Capital Maintenance / Value Added	Profit/Value Added	Cost to Customers
INDOSAT	0.52	0.19	0.14	0.89	1.770
TELKOM	0.58	0.36	3.05	2.56	111.653
NTT	0.91	3.28	4.03	0.39	0.091
TELSTRA	0.75	1.06	0.67	0.91	1.166

Table 8.14
1997 - Ratio of Privatisation

1997	Purchases / Sales	Labour/Value Added	Capital Maintenance / Value Added	Profit/Value Added	Cost to Customers
INDOSAT	0.52	0.20	0.15	0.93	1.668
TELKOM	0.57	0.33	0.72	0.46	102.879
NTT	0.91	2.94	3.89	0.33	0.100
TELSTRA	0.73	0.92	0.74	0.48	1.127

In table 8.13 and 8.14, the performance of Indonesian telecommunication companies is slightly different from other companies. A percentage of producing value added was quite higher than other companies. In 1996, TELKOM and INDOSAT obtained value added as more than 45% of sales. On the other hands, NTT and Telstra promoted only 9% and 25% of sales. This condition legitimated a higher cost mark-up in pricing practice for Indonesian companies.

The share of labour to value added was significantly different from NTT – Japan. It seems that participation culture was already inherently attached to Japan management. Labour share was around 328% in 1996 and 294 % in 1997, which much higher from TELKOM 33-36%, and INDOSAT 19-20%. In case of Telstra, an increasing of two-way communication was promoted to establish participation culture. This means that privatisation did affect the human culture gradually.

The most inefficiency of capital maintenance utilisation was existed for NTT. The only explanation for this phenomenon is:

Restoration Costs. Certain facilities and buildings located in Kobe and surrounding areas were damaged by the Great Hanshin Earthquake on January 17, 1995.

Source: NTT Annual Report - 1997, p.41.

The renewal expenses became higher which caused by regular earthquake in Japan area. This condition was classified as exceptional / abnormal condition. However, Telstra also indicated a higher portion of capital maintenance to value added, which produced by yearly re-valuation practice by Director. Both phenomena were not suitable for TELKOM, which experienced enlargement by sharing partnership practice. In this case, an evaluation for KSO – TELKOM strategy will be significant to judge high portion of capital maintenance to value added.

The share of profit to value added was indicated as available fund for dividend or re-investment. NTT was recorded as the lowest profit share to value added. On the other hand, INDOSAT, TELKOM and TELSTRA seem giving priority to shareholders' interest. This conclusion was supported by the data of cost to customers. NTT with orientation to customers, charged customers by 9-10% of normal rate, instead of beyond normal rate for three other companies. In this case, privatisation promoted a possibility to restrict low level of cost to customer if management orientation and culture was toward customers. This condition was called as popular capitalism, which approved the customers' sovereignty (Fraser, 1988).

Recognition of The Role of Accounting

The above analysis can be classified as a critical financial analysis that is necessary to raise many important aspects of social reality and the data. It is possible to use publicly available corporate reports to make an objective social analysis and critique of economic life. This illustrates that accounting can be a powerful tool and source of evidence to study the outcomes of corporate behaviour and to evaluate public policy debates, problem definitions and solutions, and issues raised in the economic and social science literatures. Related to our Chart on 'The Role of Accounting and Its Factors' (See Chapter Four), the exploration of techniques in this chapter is an example of the use of accounting techniques in a social perspective. The characteristics of the accounting role in a social perspectives were defined as, first, using publicly available reports or data; second, developing an accounting framework to serve the purpose of public policy analysis; third, reflecting winners and losers in the implementation of policy; and fourth, taking customers or people in the community as a priority.

The study applied the philosophy of basic-needs to the privatisation framework as a bridge to produce a technical analysis. In the light of the political economy philosophy, an accounting framework was set up to serve the evaluation of public policy. In this case, the accounting framework was utilised to investigate the public policy in privatisation. The objects of analysis were the financial reporting and written documents related to accounting data. The area of investigation was the policy's impact on all stakeholders of company. The purpose of the accounting framework was to indicate whether privatisation effectively increased efficiency and produced to all stakeholders. Financial

ratio and comparison were utilised as main techniques in the accounting framework for privatisation analysis.

As a conclusion, the role of accounting from a social perspective could be implemented in privatisation programmes, as long as the management put their faith in a better financial structure, especially the cost structure.

8.5 Summary

1. The Government's claims on privatisation were first, increased efficiency would result; second, all would benefit in the best of all possible worlds.
2. The details of an accounting framework for privatisation are that it :
 - a. uses historical data so that reasonably long term trends can be identified
 - b. focuses on the operational characteristics and net output of the industry
 - c. classifies the different kinds of costs – external and internal costs, and capital and labour costs – thereby identifying the scope for cost containment
 - d. clearly identifies the distribution between the various interest groups
 - e. shows the relationship between performance and distribution
3. The forms of ratio analysis are:
 - a. the ratio of purchases to revenue (sales), identifying the size of value added fund as the residual after paying for all the purchases (external costs)
 - b. the internal distribution of value added, starting with the crucial share going to labour and capital maintenance
 - c. the external distribution

- d. the implications of the relationships between sales revenues, the value added fund and its external distribution for the future performance of the industry
4. Value added was utilised to investigate the efficiency of internal mechanism on the analysis of post privatisation performance.
 5. The claim of efficiency for PT INDOSAT's privatisation should be investigated, in terms of 'who'. The customers experienced a disadvantage position.
 6. In PT TELKOM, the expense of cost structure and lack of real competition refuted in a claim for major improvement in performance.
 7. In distribution analysis, the value added approach can help to explain:
 - a. whether a company is a cash generator or cash sink
 - b. whether cash is being produced / absorbed from operating or non-operating activities
 - c. how the company is financing any cash shortfall or using any cash surplus
 - d. the quality of the company's profits
 8. In PT INDOSAT, the real beneficiaries of the change in ownership were the new owners.
 9. In PT TELKOM, the real beneficiaries of privatisation were the new owners and KSOs partners.
 10. The privatisation was at the expense of the public, both as consumers and tax-payers, as well as workforce.

11. The success of privatisation in general depends on the size of the value-added fund, its ability to grow to meet all the claims upon the surplus, and normal cost structure.
12. The characteristics of the accounting role in a social perspective are that it:
 - a. uses publicly available reports or data
 - b. develops accounting framework to serve the purpose of public policy analysis
 - c. reflects winners and losers in the implementation of policy
 - d. takes customers or people in the community into consideration as a priority.

Endnotes

ⁱ See Stickney, Clyde P, *Financial Statement Analysis – A Strategic Perspective*, 1990, p.291-577

ⁱⁱ The statement was from Buckland, 1987, '*The costs and returns of the privatisation of nationalised industries*', *Public Administration* 65 (3), p.255, which is in Clarke's (1993) paper.

ⁱⁱⁱ The controversy was raised when Setyanto P was replaced by A.A. Nasution. The replacement was proposed after privatisation and before finishing the three year's CEO's period.

CHAPTER NINE

CONCLUSION

This study was begun with recognition of how people function accounting. In case of Indonesia, an investigation of managers, directors and experts has shown the reality of the accounting role in the telecommunication industry. In line with Briston's Law, the implementation of adopted accounting standards did not affect the usefulness of accounting in the organisation, but a struggle of political economy in privatisation has developed accounting's role from technical calculation - recording to decision making.

Some profound insights into the nature of privatisation have been obtained. While it has been claimed by the Indonesian government that privatisation is a 'cure' for the illness of public sector management, the evaluation of the privatisation decision has not been seen as necessary. Up to now, the government campaign has been recognised as confined to general forecasting and evaluation of this public policy.

This study carried out an in-depth search into the reality behind privatisation. By developing a new understanding on the management of public needs, it created a comprehensive framework for analysis of privatisation from a political economy approach. Within the accounting background, the framework has been employed to appraise a privatisation decision.

Related to Briston (1981), a new field of accounting, the study of the role of accounting can be introduced. Because there has been relatively little previous study in this field, the role of accounting field should be promoted by clarifying the benefits of such an approach, the field's structure and the field's position among others. The area of accounting role study is related to accounting policy, which stresses macro concepts. The field structure is defined in terms of three perspectives: financial economic, organisation and social perspectives. The main benefit of focusing on the role of accounting is to shape accounting's role in the development of organisations and society, based on an assumption that 'the complex ingredient of accounting work as an interaction of culture, sociology, art, technologies and others.'

In this context, the present study focused on the telecommunication industry and Indonesian accounting, investigating the history of telecommunication from the role of accounting perspective. It was revealed that privatisation was a result of a conscious decision, rather than a natural development of the industry; and, the development of the accounting role in the telecommunication industry shifted to the organisation perspective level. With regard to Indonesian accounting, the position of accounting functions has been defined by investigating the development of accounting, which produced a similar result within the industry's analysis.

Based on preliminary analysis, the political economy approach in the privatisation framework was implemented to analyse documents and conduct interviews to provide research data. According to the government regulation, the role of accounting in privatisation is to promote competition, which is in the organisational perspective. However, the interviews might be expected to reflect social reality, that is, to view the events of privatisation from a social perspective. Whereas the government, in its regulation, assumed privatisation to be a method of industrial restructuring. On the other hand, the interviewees saw privatisation as a reform of social welfare, which affected individuals' economy.

In financial reporting analysis, the study developed an accounting framework. The analysis exposed the social reality in terms of 'winners and losers' in the implementation of the public policy, privatisation. The analysis, which can be classified into post performance of privatisation and distribution of cash flow, utilised a value-added approach and examined the shares of various elements in the value added fund. The outcome of analysis was the conclusion that the winners in privatisation of PT INDOSAT and PT TELKOM are the new owners, at the expense of government, customers and employees.

In respect of the research question, the role of accounting in the evaluation of privatisation

in the Indonesian telecommunication industry was tackled from an organisational perspective. This means that the regulation and exploration of accounting's products favoured development of accounting calculation and accounting for decision making. While the stewardship functions already existed as a requirement, objective analysis of the performance of the policy lagged behind. In this respect, the government and national regulator were reluctant to promote an analysis of social reality at the organisation or industry levels after privatisation.

Based on the findings and discussion of the research question, the study discovered a need to change the privatisation orientation. In other words, the reformation of privatisation is needed. Privatisation should be directed toward the customer's interest, instead of the government budget or the interest of the new owners. The development of government business should be indicated by a development of customers' capability in the industry. In the case of telecommunication, telecommunication companies should be encouraged to increase the quality and types of service offered and, at the same time, maintain the price to customers. The price to the customer can be seen as dependent in management efficiency; an increase in management efficiency is needed to maintain the cost to customers at the same level.

Future Opportunities and Challenges

In the future, understanding of the role of accounting in a social perspective will be necessary for business and government institutions. Indonesia's monetary crisis could be a turning point to put the organisational perspective behind, and to give a new emphasis to the social perspective. Unpaid debts, huge losses because of exchange rate and bankruptcy should be disclosed in financial reporting. The only way to disclose fairly and obtain an appropriate response is by shifting the orientation of accounting analysis to reflect the social reality inside the company.

This study was one link in a long research chain. A development of research on accounting policy, especially in the accounting role fields, should be promoted. An application of three perspectives: financial economy, organisation and social, could be a great contribution to establish a framework for analysis of macro aspects of accounting policy. On the other hand, a re-examination of the concepts underlying these perspectives would be an interesting theoretical study.

With regard to privatisation, a request of the International Monetary Fund towards the Indonesian government in 1997 has given a boost to the privatisation of one hundred SOEs. The present study has provided an example of how privatisation has been managed. This

means that the study can be categorised as a pioneer for privatisation study.

In the telecommunication industry, the study encouraged a special study of the cost structure in many telecommunication companies. The development of accounting rate in international telecommunications should be investigated, in order to tie in with efficiency of cost structure in Public Telephone Operators. This highlights the significance of cost accounting in telecommunication accounting study.

Finally, the research framework of this study can be a starting point to implement a political economy approach in other accounting studies. Even though such studies are rare in Indonesia, broad opportunities for political economy studies can be established across accounting fields, telecommunication and privatisation.

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APPENDIX:

1. Law of the Republic of Indonesia, No.3/1989, Dated: April 1, 1989
RE Telecommunication
2. Government Regulation, Number: 8/1993, Dated: February 16, 1993
RE the Operation of Telecommunications
3. Processing sheet of financial reporting analysis: Telstra and NTT
4. Workpaper of Interview

a. LAW OF REPUBLIC OF INDONESIA
No. 3/1989 DATED APRIL 1, 1989

RE

TELECOMUNICATION

by the Grace of almighty God,
the President of the Republic of Indonesia,

Considering :

- a) that the aim of national development is to promote social welfare and to educate the national with a view to achieving a just & prosperous society materially as well as spi-ritually on the basis of the Pancasila;
- b) that telecommunication is an important branch of production to the State and which covers the life of masses so that it is necessary that it is under the control of the State for achieving the aims of national development;
- c) that organizing telecommunication has a strategic significance to effort at strengthening and promoting national unity and integrity, improving social welfare and the prosperity of the people, smoothing the activities of the government and the development of all parts of the country, encoutaging economic growth, strengthening a sound and dynamic national and, therefore, its provisions, use and management need to be enchanced;
- d) that with a view to promoting the organization of telecommunication, it is necessary to make continued and effective efforts and public participation to guarantee the provision of telecommunication services to the maximum to the public, to be able to follow technological development;
- e) that on the basis of the above mentioned, and in efforts to give a stronger foundati for achieving said aspirations, Law No. 5/1964 on the stipulation of Government Regulation in lieu of Law No. 6/1963 on Telecommunication into Law (State Gazette of 1964 No.59, Supplement to State Gazette No.2667) is regarded no longer in line with the technological progress and demands for needs of the people, so that it is necessary to draw up a new law.

With due observance of : Article 5 paragraph (1), Article 20 paragraph (1), and Article 33 of the Constitution of 1945;

With the approval of
THE PEOPLE'S HOUSE OF REPRESENTATIVES

DECIDES :

To stipulate : THE LAW ON TELECOMMUNICATION.

CHAPTER I

GENERAL PROVISIONS

Article 1

Referred in this law as :

1. Telecommunication is every transmission, dispatch, or receipt of any kind of sign picture, sound, and information in whatever form, through cable, optical, radio, system, or other electromagnetic system.
2. A means of telecommunication is any equipment used conducting telecommunication;
3. Telecommunication set is a group of telecommunication equipment which makes it possible to conduct a telecommunication.
4. A radio transmitter is means of telecommunication which uses and transmits radio waves;
5. A telecommunication network is a series of telecommunication sets and their equipment used in conducting telecommunication;
6. Conducting telecommunication is the provision and services of means and/or facilities of telecommunication, which make it possible conduct telecommunication;
7. The running of telecommunication services is conducting telecommunication to meet need of the people;
8. The conduct of telecommunication for special purpose is the conduct of telecommunication by certain government agencies, individuals, or corporate bodies for special purpose or for serving one's needs;
9. Telecommunication services are the services provide an organizing body or other bodies to the public to meet their need for telecommunication by using telecommunication facilities;
10. An organizing body is a state-owned business company whose form of business is in line with the prevailing statutory regulations, acting as the authority in the running of telecommunication services;

11. Other bodies are corporate bodies other than the organizing body in the form of cooperative, regional administration business company, and national private business company, engaged in the running of telecommunication services;
12. The Minister is the minister in charge of the field of telecommunication.

CHAPTER II

THE AIMS AND PRINCIPLES OF ORGANIZING TELECOMMUNICATION

Article 2

The organisation of telecommunication is aimed at contributing to national unity and integrity, promoting the welfare and prosperity of the people in a just way, supporting economic life and the activities of the government, and at enhancing international relations.

Article 3

Telecommunications is organized on the basis of benefit, fairness and equity, and self-confidence.

CHAPTER III

THE DEVELOPMENT OF TELECOMMUNICATION

Article 4

1. Telecommunication is controlled by the State, and its development is done by the government.
2. The procedure for development as referred to in paragraph (1) shall be stipulated by Government Regulation.

Article 5

1. The government decides the policy in the field of telecommunication in an overall and integrated way with due observance of the thoughts and views prevailing within the society.
2. The policy in the field of telecommunication as referred to paragraph (1) covers activities of stipulations, guidance and development of various means, infrastructure, and the kinds of organising telecommunication which are mutually supporting to guarantee smooth and continued organisation of telecommunication services towards the achievement of integratedness.

Article 6

The minister acts as the authority in administrative charge of Indonesian telecommunication.

Article 7

The use of radio frequency spectrum and the geostationary orbit which constitute limited natural resources in the organisation telecommunication is stipulated by government regulation.

Article 8

1. The use of telecommunication equipment which use radio waves and other electromagnetic waves is done on the principle of non-interference and in line with the purpose of the equipment.
2. Within the framework of the control of the use of radio waves and others electromagnetic waves, telecommunication equipment must meet the technical requirement determined by the Minister.
3. The telecommunication equipment traded, manufactured, assembled, and imported into the Indonesian territory must observe the technical requirements as referred to in paragraph (2).
4. Further stipulations on the procedure, requirements, and licencing of the use of telecommunication equipment, including operation, ownership and installation using radio waves and other electromagnetic waves shall be stipulated in a Government Regulation.

Article 9

The licencing of the use telecommunication equipment using radio waves and other electromagnetic waves for diplomatic missions in Indonesia is realized by observing the principle of reciprocity.

Article 10

1. A ship or water vehicle flying a foreign flag within the Indonesian territorial water shall not be required to meet the technical requirements as stipulated by the Minister for the telecommunication equipment it uses, except if the ship or water vehicle is being commercially operated within the Indonesian territorial waters, the stipulation referred to in Article shall be applicable.
2. A ship or water vehicle flying the national flag and those flying a foreign flag within port water are not allowed to use radio transmitters or other electromagnetic waves, except if the transmitter :
 - a) is used in the interest and for the security of the state, the safety of human lives and property, natural disasters, emergencies, epidemics and navigational safety; or
 - b) has been connected to the telecommunication network operated by the organising body; or
 - c) is part of the satellite communication system and electromagnetic waves as referred to in paragraph (1) and (2) shall be provided for in a Government Regulation.
3. Further stipulations on the use of radio waves and other electromagnetic waves as referred to in paragraph (1) and (2) shall be provided for in a Government Regulation.

CHAPTER IV

ORGANIZING TELECOMMUNICATION

Article 12

1. Telecommunication is organized by the government, while telecommunication services may be entrusted with organizing body.
2. A body other the organizing body referred to in paragraph (1) may organize basic telecommunication services on the basis of cooperation with the organizing body, while non-basic telecommunication services may be organized by another body without a cooperation with the organizing body.

3. Telecommunication for special purpose may be organized by certain government agencies, individuals, or corporate bodies other than the organizing body & other bodies as referred to in paragraph (1) and (2).

Article 13

1. Telecommunication services organized by bodies other than the organizing body as referred to in Article 12 paragraph (2), and telecommunication for special purposes as referred to in Article 12 paragraph (3) shall be organized on the basis of a licence.
2. The requirement and procedures for the application for a licence as referred to in paragraph (1) shall be provided in a Government Regulation.

Article 14

While still observing the relevant effective laws and with approval of the Minister, the organising body and other bodies as referred in Article 12 paragraph (1) and (2) may conclude an agreement with an international organisation and with the telecommunication organiser of another country.

Article 15

1. Organising telecommunication for the defence and security of the State may use the telecommunication services provided by the organizing body and other bodies as referred to in Article 12 paragraph (1) and (2).
2. The allocation of radio frequencies for telecommunication for the defence and security of the state shall be provided in a Government Regulation.

Article 16

1. If the telecommunication services provided by the organizing body as referred to in Article 12 paragraph (1) or another body as referred to in Article 12 paragraph (2) cannot as yet reach certain areas, telecommunication for special purposes as referred to in Article 12 paragraph (3) with the approval of the Minister may provide telecommunication services to the public.
2. The provision of telecommunication services as referred to in paragraph (1) shall be laid down in a Government Regulation.

Article 17

The tariff of telecommunication services shall be given Government Regulation.

Article 18

1. The organizing body and other bodies, certain government agencies , in individuals, and corporate bodies as referred to in Article 12 paragraph (1) and (2) and (3), shall be required to give priority to dispatch, channeling and presentation of messages concerning :
 - a) the interest and security of the state;
 - b) the safety of human lives and property;
 - c) natural disasters;
 - d) perils;
 - e) epidemics;
2. The priorities of the dispatch, channeling and presentation of messages other than messages as referred to in paragraph (1) shall be determined by the Minister.

Article 19

1. For public interest, the organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) in providing telecommunication services shall be authorized to install telecommunication network by :
 - a) crossing rivers or lakes above or below the surfaces;
 - b) crossing the sea above or below the surface;
 - c) crossing public roads, public places, and railway tracks.
2. The organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) , in undertaking a business in the interest of the public, provided it is not opposed to and observe the relevant prevailing laws, shall be authorized to :
 - a) enter public or personal places and use them temporarily;
 - b) use land, cross over or underneath the land;
 - c) cross over or under building constructions on or in the land;
 - d) fell or cut obstructing vegetations.
3. The organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) in providing and promoting telecommunication services, shall be authorized to import, control and own telecommunication equipment for the provision of telecommunication services.

Article 20

1. For public interest, those entitled to land, buildings, and vegetations are required to allow the organizing body and other as referred to in Article 12 paragraph (1) and (2) to exercise the authority as referred to in Article 19 paragraph (2) against reasonable compensation if it causes a movement of building and revocative of the right on the land and the property there on.
2. No compensation as referred to in paragraph (1) shall be paid for land directly under the control of the state.
3. Compensation as referred to in paragraph (1) shall be charged to the organizing body and other bodies as referred to in Article 12 paragraphs (1) and (2).
4. The organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) shall not be allowed to carry out their work until the compensation as referred to in paragraph (1) has been settled.

Article 21

The payment of the compensation as referred to Article 20 shall be made in accordance with the relevant prevailing laws.

Article 22

The obligation to give compensation as referred to in Article 20 shall not apply to those who have built buildings, planted vegetation, and other for the sole purpose of obtaining a compensation for the land that has already been cleared for a telecommunication services rendering undertaking.

CHAPTER V

THE PREVENTATION OF DISTURBANCE, THE PROTECTION AND SAFEGUARDING OF THE ORGANISATION OF TELECOMMUNICATION

Article 23

Action which may create physical and electromagnetic disturbance to the organisation of telecommunication shall be banned.

Article 24

1. Telecommunication means and infrastructure for organizing telecommunication get protection and safeguard.
2. The form of the protection and safeguard as referred to in paragraph (1) shall be stipulated in Government Regulation.

CHAPTER VI

THE RELATIONSHIPS BETWEEN THE ORGANIZING BODY, OTHER BODIES AND THE PUBLIC IN ORGANIZING TELECOMMUNICATION SERVICES

Article 25

1. The organizing body as referred to in Article 12 paragraph (1) is the holder of authority organise telecommunication services.
2. Bodies other than the organising body as referred in Article 12 paragraph (2) and individuals or corporate bodies as referred to in Article 12 paragraph (3) are the business partners of the organizing body.

Article 26

The organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) are required to secure the smooth organisation of telecommunication services by providing good reliable telecommunication facilities, and providing the best of services.

Article 27

The organizing body and other bodies as referred to in Article 12 paragraph (1) and (2) in organizing telecommunication services are required to provide equal services and treatment to each user and future user of telecommunication services.

Article 28

Everybody, every state agency and government body or private bodies basically have equal rights in the use of telecommunication services by due observance of the relevant prevailing laws.

Article 29

In providing that one has used telecommunication facilities, the organising body and other bodies are referred to in Article 12 paragraph (1) and (2), at the request of the customer concerned shall be required to record the telecommunication facilities by the customer, and may make a recording of messages according to the relevant prevailing laws.

Article 30

1. A customer of telecommunication services shall be entitled to file a claim for reasonable compensation for the loss arising from the use of telecommunication services, provided it can be proved that the loss is caused by a mistake of the organizing body and other bodies as referred caused by a mistake of organizing body and other bodies as referred to Article 12 paragraph (1) and (2).
2. The stipulation as laid down in paragraph (1) does not apply to the loss arising from cause beyond the power of organizing body and other bodies as referred to in Article 12 paragraph (1) and (2).
3. The filling of a claim for and settlement of compensation as referred to in paragraph (1) shall be given in a Government Regulation.

CHAPTER VII

KEEPING MESSAGES A SECRET

Article 31

The organizing Body and other bodies as referred to in Article 12 paragraph (1) and (2) shall be required to keep secret the messages sent and received by using telecommunication services.

Article 32

The recorded message given by organizing body and other bodies to the customer as proof as referred to in Article 29 does not constitute a violation of Article 31.

CHAPTER VIII

THE TELECOMMUNICATION ADVISORY BOARD

Article 33

1. Within the framework of the implementation of this Law and in line with the technological development in telecommunication and dynamic of the public, a Telecommunication Advisory Board is formed by Presidential Decree.
2. The Telecommunication Advisory Board as referred to in paragraph (1) is a coordinating forum which gives considerations, suggestions, and views for the formulation of policies in telecommunication and an discuss telecommunication matters of strategic nature.

Article 34

The structure of the membership, the appointment and dismissal of the members of Telecommunication Advisory Board shall be laid down in a Presidential Decree.

CHAPTER IX

STIPULATION ON CRIMINAL OFFENCE

Article 35

Any illegal and intentional action to change telecommunication network and/or manipulated the organisation of telecommunication causing loss the organiser or the customer shall constitute a criminal offence.

Article 36

1. Anybody intentionally violating the stipulation on the use of telecommunication equipment by using radio waves and other electromagnetic waves as referred to in Article 8 paragraph (1) and Article 12 paragraph (1) shall be liable to an imprisonment of the maximum of 4 (four) years or a maximum fine of Rp 40,000,000 (forty million rupiahs).
2. Anybody intentionally committing an action which causes disturbance to the organisation of telecommunication as referred to in Article 23 shall be liable to

maximum imprisonment of 4(four) years or a maximum fine of Rp 40,000,000 (forty million rupiahs).

3. If the criminal offence as referred to in paragraph (1) and (2) causes the death of a person, the offender shall be liable to maximum imprisonment of 7 (seven) years.
4. Anybody due to negligence causes disturbance to the organisation of telecommunication as referred to in Article 18 paragraph (1) and Article 23 shall be liable to a maximum imprisonment of 1(one) year or a maximum fine Rp 10,000,000 (ten million rupiahs).
5. If the negligence as referred to in paragraph (4) causes the death of a person, the person concerned shall be liable to maximum imprisonment of 5(five) years.

Article 37

1. Anybody violating the stipulations on the operation, ownership, or installation of radio transmitters as referred to in Article 8 paragraph (4) shall be liable to a maximum imprisonment of 1 (one) year or a maximum fine of Rp 10,000,000 (ten million rupiahs).
2. Anybody importing radio transmitters into the Indonesia territory, trading, production, or assembling radio transmitters for use in Indonesia, without meeting the technical requirement laid down in Article 8 paragraph (3) shall be liable to a maximum prison term of 1 (one) year or a maximum fine of Rp 10,000,000 (ten million rupiahs).
3. Anybody violating the stipulations in Article 10 paragraph (2) and Article 11 paragraph (2) shall be liable to a maximum prison term of 1 (one) year or a maximum fine of Rp 10,000,000 (ten million rupiahs).

Article 38

Anybody violating the stipulations in Article 31 shall be liable to a criminal penalty in accordance with criminal code.

Article 39

1. If the criminal offence as referred to in Article 35,36,37 and 38 has been committed by or upon the responsibility of a corporate body, a law suit will be filed and a verdict pronounced on the management board or those responsible, except if the management board or those responsible can prove that they are not responsible for the offence.
2. All the telecommunication equipment and other goods used for committing the criminal offence as referred to in Article 35, 36, 37 and 38 can be confiscated by the state and handed to the ministry in charge of telecommunication to serve the need of the state or for immediate destruction.
3. The criminal offence referred to in Article 35, 36, 37 and 38 are crimes.

CHAPTER XI

TRANSITIONAL PROVISION

Article 41

All the regulations of implementation in effect by virtue of Law No. 5/1964 shall be declared to remain valid provided they are not opposed to this law or if no new regulations of implementation have been issued.

CHAPTER XII

CONCLUDING PROVISION

Article 42

With the enforcement of this Law, No. 5/1964 on the stipulation of Government Regulation in lieu of Law No. 6 /1963 on Telecommunication (State Gazette of 1963 No. 66) to become law (State Gazette of 1964 No.59, Supplement to State Gazette No. 2657), is declared null and void.

Article 43

This law is cancelled the Law on Telecommunication, and goes into effect as of the date of promulgation.

For public cognizance, this law is promulgated by publishing it in the State Gazette of the republic of Indonesia.

Promulgated at Jakarta
On April 1, 1989

Stipulated at Jakarta
On April 1, 1989

THE MINISTER/STATE SECRETARY

THE PRESIDENT OF THE
REPUBLIC OF INDONESIA,

sgd

sgd

MOERDIONO

SOEHARTO

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 1989 NUMBER 11

b. GOVERNMENT REGULATION
NUMBER : 8/ 1993 DATED : FEBRUARY 16, 1993

RE

THE OPERATION OF TELECOMMUNICATIONS

Considering: that in order to further increase the role of telecommunications in support of national development, it is deemed necessary to review the regulation on the operation of telecommunication, as provided for in Government Regulation No. 24/1991;

Bearing in mind: 1. Article 5 paragraph (2) of the 1945 Constitution;
2. Law No. 3/1989 on Telecommunication (State Gazette No. 11/ 1989, Supplement to State Gazette No. 3391);

HAS DECIDED

To Stipulate: **THE GOVERNMENT REGULATION ON THE OPERATION OF TELECOMMUNICATION.**

CHAPTER I
GENERAL PROVISION

Article 1

Referred to in this Government Regulation as:

1. Telecommunications are every transmission, sending or receiving of every kind of sign, picture, sound and information in whatever form through cable, optic, radio systems or other electromagnetic systems.
2. The operation of telecommunications is an activity of providing and rendering services for means and/or facilities of telecommunications so that telecommunications can be operated.
3. A Telecommunications device is every kind of equipment used in telecommunications.
4. A Telecommunications Set is a group of telecommunications devices and their equipment used in telecommunications.
5. A Telecommunications network is a series of telecommunications sets and their equipment which used in telecommunications.
6. Telecommunications means are all that can be used in telecommunications and that may be in the form of telecommunications network or telecommunications facilities.
7. A terminal is a telecommunications set which constitutes the end part of a telecommunications network for input/output functioning to transform information which man can sense into electromagnetic signals to be sent through a telecommunications network, or the other way around.
8. A radio transmitter is telecommunications device which uses and transmits radio waves.
9. A Telecommunications services is a services provided by operation agency or other agencies for the community to fulfil the need for telecommunications using telecommunications facilities.
10. Basic telecommunications services are telecommunications services conveying information purely in which the content and message of the information send and received are of permanent, neutral and transparent nature with regard to the telecommunications network or facilities used.
11. Non-basic telecommunications services are telecommunications services outside the basic telecommunications services arising owing to enhancement of the characteristics and capability of telecommunications facilities using computers or other sets of apparatuses to process and/or store data and information.

12. The rendering of telecommunication services is the operation of telecommunications to fulfil the need of the community.
13. An operation agency is state-owned agency whose form of business is pursuant to the prevailing laws, and which acts as the holder of the authority for the rendering of telecommunications services.
14. Other agencies are statutory bodies outside the operation agency in the form of co-operatives, companies owned by the regions or companies owned by private circles dealing in the rendering of telecommunications services.
15. The operation of telecommunications for special purposes is the operation of telecommunications undertaken by particular Government agencies, individuals or statutory, for special purposes or for their own purposes.
16. The Minister is the Minister responsible for telecommunications.

Article 2

1. The operation of telecommunications is undertaken by the Government.
2. The operation of telecommunications as referred to in paragraph (1) encompasses;
 - a. the rendering of telecommunications services;
 - b. the operation of telecommunications for special purposes.
 - c. the operation of telecommunications for the state's defence and security purpose.
3. The operation of telecommunication for state defence and security purposes as referred to paragraph (2) letter c shall be separately provided for in a Government Regulation.

CHAPTER II

THE RENDERING OF TELECOMMUNICATION SERVICES

First Part

Authority of Operation

Article 3

1. The Government delegates the authority in the rendering of telecommunications services to the operating agency.
2. The rendering of telecommunications services as referred to in paragraph (1) consists of :
 - a. the rendering of domestic telecommunications services;
 - b. the rendering of international telecommunications services.
3. The operation agency as referred to in paragraph (1) is a state-owned company set up for this purposes pursuant to the prevailing laws.

Article 4

1. Agency other than the operation agency as referred to in Article 3 may render basic telecommunications services on the basis of co-operation with the operation agency, while rendering of non-basic telecommunications services may be undertaken by other agencies without co-operation with the operation agency.
2. The form of co-operation as referred to in paragraph (1) may be a joint venture, operational co-operation or a management contract.
3. The fields of co-operation which are feasible in the form a joint venture, operational co-operation or management contract shall be provided further by the Minister.

Article 5

1. Other agencies in the rendering of telecommunications services as referred to in Article 4 are business partners of operation agency.
2. The co-operation in the rendering of basic telecommunications services undertaken by other agencies as referred to in paragraph (1) shall not make the operation the agency lose relinquish its authority.

Article 6

In rendering basic and non-basic telecommunications services as referred to in Article 4, the other agencies are obligated to possess a license from the Minister.

Article 7

Further stipulations on requirements, licensing procedure, scope and guideline of co-operation as referred to in Article 4 shall be laid down by the Minister.

Article 8

1. To be able to implement the rendering of telecommunications services as referred to in Article 4, other agencies are obligated to fulfil the following requirements :
 - a. having a business scope in the rendering of telecommunications services;
 - b. being an Indonesian statutory body;
 - c. in the case of the rendering of basic telecommunications services, using a telecommunications network owned by the operating agency, as far as the capacity of the telecommunications network makes it possible;
 - d. in the event of the capacity of telecommunications network owned by operating agency being insufficient or unavailable, the other agencies concerned must be joint

ventures with the operating agency and may construct telecommunications networks.

2. In providing public services, the agency as referred to in paragraph (1) shall collect fees pursuant to the prevailing laws.

N 6 A

Second Part

Types of Telecommunications Services

Article 10

1. The types of basic telecommunications services encompass the services telephone, telex, telegram, communication connection of package of data, subscribers' circuits and telecommunications canals.
2. The types of basic telecommunications services other than those referred to paragraph (1) shall stipulated by the Minister.

Article 11

1. The types of non-basic telecommunications services are grouped into :
 - a. switching group;
 - b. terminal group;
 - c. data basis access group;
 - d. transactional group;
2. Further details of each group of services as referred to in paragraph (1) shall be stipulated by the Minister.

Third Part

Telecommunications Networks

Article 12

The operating agency is obligated to construct or make available telecommunications networks.

Article 13

1. Subscribers to telecommunications services may provide themselves with the terminal used and telecommunications cables in the building.
2. The stipulation on the procedure for the provision of terminal as referred to I paragraph (1) shall be laid down by the Minister.

Fourth Part Tariffs

Article 14

The tariffs of telecommunications services are divided into two kinds :

- a. the tariffs of basic telecommunications services comprising the tariffs of domestic basic telecommunications services the tariffs of international telecommunications services.
- b. The tariffs of non-basic telecommunications services.

Article 15

1. The tariffs structure of domestic basic telecommunications services consists of :
 - a. basic tariffs;
 - b. special tariffs;
2. The basic tariffs as referred to in paragraph (1) letter a are the tariffs used as the calculation basis for the costs incurred for :
 - a. telephone and telex services, namely, pulse tariff;
 - b. telegram service, namely word tariff;
 - c. services of communications connection of package of data, namely the tariff of data volume (segment) and the tariff of the length of talk;
 - d. services of subscribers' circuit and telecommunications canals, namely the tariff of services use with a length of time.
3. The special tariffs as referred to in paragraph (1) letter b are the tariffs for the installation and use of telecommunications facilities stipulated in accordance with the types of facilities and/or the condition of a region and comprising :
 - a. installation cost;
 - b. monthly subscription fee;
 - c. facility use fee;
 - d. other additional facilities costs.

Article 16

The amount of the tariffs of domestic basic telecommunications services as referred to in Article 15 shall be stipulated by the Minister.

Article 17

The amount of the tariffs of international basic telecommunications services shall be stipulated by minister on the basic of international agreements and other agreements in force.

Article 18

The structure and the amount of tariffs of non-basic telecommunications services shall be stipulated by the operating agency and/or other agencies after approval of the Minister has obtained.

Fifth part Confidentiality of News

Article 19

The operating agency and/or other agencies are obligated to comply with the prevailing stipulation on the confidentiality of news as provided for in Article 31 of Law No.2/1989 on telecommunications.

Article 20

The conveyance of recorded news by the operating agency and or other agencies to users of telecommunications services upon the request of the services users concerned of the purpose of serving as evilation against the obligation to guarantee the confidentiality of news referred to in Article 19.

Sixth Part Rights and Obligations

Article 21

1. The operating agency has right to get compensation of the cost arising as a result of telecommunications network being moved or changed because of the activities performed by or upon the request of agencies/department/institutions or other parties.

2. The cost as referred to in paragraph (1) shall be incurred on and shall be the responsibility of the agencies/department/institutions or other parties performing the activities or desiring the network to be moved or changed.

Article 22

The operating agency and/or other agencies are obligated to accept the applications from prospective users of telecommunications services already fulfilling the requirements for subscription to telecommunications services as long as the telecommunications network is available.

Article 23

1. The procedure for submitting and settlement of objections to every loss inflicted on the use of telecommunications services as referred to in Article 30 of Law No.3/1989 is arranged as follows :
 - a. for users of the services of telephone, telex, telegram and facsimile through public boots or telecommunications shops or services centres the objections submitted in writing to the operating agency and/or other agencies at least 7 (seven) days as of the time it is found out that a loss has been inflicted with the following being attached :
 - 1) legal identity card of the user;
 - 2) a report of the event causing the loss;
 - 3) evidence of payment;
 - b. for subscribers of telephone, facsimile, telex, communications connection of package of data, subscribers' circuit or telecommunications canal, the objections is submitted in writing to the operating agency within 7 (seven) days at latest after the report of disturbance with the payment receipt of the latest months being attached.
2. The operating agency and/or other agencies shall undertake examination on the basis of the report of objection as referred to in paragraph (1).
3. A decision on the approval or rejection of the granting of compensation shall be stipulated by the operating agency and/ or other agencies within 30 (thirty) days at the latest after the objection is received.

4. The rejection of the objection as referred to in paragraph (3) shall be accompanied of the reasons.
5. The procedure for the payment of compensation as referred to paragraph (1) shall be arranged as follows :
 - a. for users of the services of telephone, telex, telegram, facsimile, from public boots or telecommunications shops or services centres, shall be paid at the public boots, telecommunications shops, services centres concerned with a summon letter for the receipt of compensation being shown;
 - b. for subscribers to connections of telephone, facsimile, telex, communications connection of package of data, subscribers' circuit in the collection of the next month.

Article 24

The amount of compensation is stipulated as follows :

- a. users of telecommunications services from public boots or telecommunications services or services centres shall be paid 3 (three) times as much as the cost paid by the users;
- b. connections of telephone, facsimile, telex, package of data telecommunications connection which are disturbed for 7 (seven) days in a row as of the receipt of the report of disturbance shall be exempted from the obligation to pay the monthly subscription fee of mont concerned;
- c. the connection of subscribers' circuits and telecommunications canals shall be compensated for as much as the fees which should have been paid by the subscribers during the accurrence the disturbance as of the receipt of the report of disturbance on the basis of fees of use of facilities monthly

Article 25

The procedure for the payment and the amount of the compensation of losses arising in types of other basic telecommunications services shall be further stipulated by the Minister.

Article 26

Settlement of every loss as referred to in Article 23 does not remove the possibility of resorting to other legal ways.

CHAPTER III

THE OPERATION OF TELECOMMUNICATION FOR SPECIAL PURPOSES

Article 27

The operation of telecommunications for special purposes which entails certain nature such as confidentiality, shall have the scope and the operation comply with separated procedure and form implemented by particular government agencies for the implementation of special purposes by individuals or statutory bodies for special purposes or purposes of their own.

Article 28

The operation of telecommunications for special purpose includes:

- a. telecommunications for the implementation of special assignments of certain Government agencies;
- b. telecommunications operated by individuals;
- c. telecommunications operated by statutory bodies.

Article 29

1. The operation of telecommunications for the implementation of special assignments of certain government agencies as referred to in article 28 letter a encompasses among other things :
 - a. search and rescues of human lives;
 - b. radio navigation for communications;

- c. meteorology and geophysics;
 - d. state-owned radio station (Radio of the Republic of Indonesia) and state-owned television station (Television of the Republic of Indonesia);
 - e. astronomy radio;
 - f. remote sensing and control by the government;
 - g. forestry communications system by the government;
 - h. concession radio for government activities.
2. The operation of telecommunications for special purposes by individuals as referred to in article 28 letter b encompasses among other things :
- a. radio communications among citizens;
 - b. cable communications among citizens;
 - c. amateur radio stations;
3. The operation of telecommunications for special purposes by statutory bodies as referred to in Article 28 letter c encompasses among other things the operation of telecommunications for :
- a. private broadcasting radio stations;
 - b. private television stations;
 - c. railway telecommunications;
 - d. concession radio for activities for oil and natural gas mining
 - e. concession radio for forestry business operation activities.
4. The operation of telecommunications for special purposes other than those referred to in paragraph (1), (2) and (3) shall be stipulated by the Minister.

Article 30

1. The operation agency of telecommunications for special purposes as referred to in article 28 is obligated to obtain an operational license from the Minister.
2. The requirements and procedure for the granting of the operational license as referred to in paragraph (1) shall be stipulated by the Minister.

Article 31

1. The operating agency of telecommunications for special purposes as referred to in Article 28 letter a is prohibited to render telecommunications services.
2. The operation agency of telecommunications for special purposes referred to in Article 28 letter b and c can, with licence from the Minister, render telecommunications services for the community in the surrounding areas, if the areas have not yet telecommunications services rendered by the operating agency.

Article 32

The operating agency of telecommunications for special purposes under taking the activities as referred to in Article 31 paragraph (2) may collect fees in accordance with the prevailing tariffs and is obligated to comply with the stipulations on the rendering of telecommunications services.

Article 33

The operating agency of telecommunications for special purposes as referred to in Article 28 is obligated to fulfil the requirements of :

- a. using subscribers' circuits or telecommunications canals owned by the operating agency;
- b. using telecommunications equipment fulfilling the technical requirements stipulated by the Minister.

Article 34

The article of telecommunications for special purposes by statutory bodies can be permitted only for communications between the head office and the branches or among branches.

Article 35

It is prohibited to connect the telecommunications network used in the operation of telecommunications for special purposes with the telecommunication network used in the rendering of telecommunications network used in the rendering of telecommunications services.

CHAPTER IV CLOSING PROVISIONS

Article 36

With the enforcement of this Government Regulation, Government Regulation No.24/1991 on the Operation Telecommunications is declared null and void.

Article 37

This Government Regulation takes effect as of the date of promulgation.

For public cognizance, this Government Regulation is promulgated by publishing it in the State Gazette of the Republic of Indonesia.

Promulgated at : Jakarta
On : February 16, 1993

Stipulated at : Jakarta
On : February 16, 1993

MINISTER/SECRETARY OF STATE OF
THE REPUBLIC OF INDONESIA

signed

MOERDIONO

PRESIDENT OF THE REPUBLIC
THE REPUBLIC OF INDONESIA

signed

SOEHARTO

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NO.12/1993

Telstra

Table Unit costs per minute telephone

	1997	1996
Cost to customers	1.12763987	1.16678298
Cost of operations	0.82093547	0.84356144
Capital maintenance	0.22414765	0.18594555
Return on capital	0.08255675	0.13727599
Cost of Operation	11654	11464
Net Profit Margin	0.13429645	0.23423485
Total Assets Turnover	0.61473517	0.58606133
Assets	25858	24362
Sales	15436	14716
Labas Usaha	2073	3447
Telephone (in million minutes)	1997	1996
total	14196	13590

NTT

Table Unit costs per minute telephone

	1997	1996
Cost to customers	0.10180423	0.09092959
Cost of operations	0.03900178	0.03400515
Capital maintenance	0.01	0.01324375
Return on capital	0.04828148	0.04368069
Cost of Operation	8052307	7212492
Net Profit Margin	0.08722444	0.08802408
Total Assets Turnover	0.55353153	0.49623571
Assets	16475094	15399448
Sales	8821782	7908643
Laba Usaha	769475	696151
Telephone (in million minutes)	1997	1996
minutes	206460000	212100000

WORKPAPER OF INTERVIEW

No.	Groups	Position	Origin		Why Regulate			Emotional	
			Public Pol.	Market	Fine	Response	Fine&Bad	Personal	Institutions
1	Director	PT Telkom	m		m			m	
2	Director	PT Telkom	m		m			m	
3	Director	PT Telkom		m	m			m	
4	Director	PT Telkom	m		m			m	
5	Director	PT Telkom	m		m			m	
6	Director	PT INDOSAT	m		m			m	
7	Director	PT INDOSAT	m		m	m		m	
8	Director	PT INDOSAT	m	m	m	m		m	
9	Director	PT INDOSAT		m	m	m		m	
10	Director	PT INDOSAT	m			m		m	
11	Director	PT INTI		m		m		m	
12	Director	PT INTI		m		m		m	
13	Director	PT INTI		m		m		m	
14	Management	Manager	m		m			m	
15	Management	Manager	m			m		m	
16	Management	Manager		m			m	m	
17	Management	Manager	m		m			m	
18	Management	Manager	m		m			m	
19	Management	Manager	m		m			m	
20	Management	Manager	m		m			m	
21	Management	Manager		m		m		m	
22	Management	Manager	m		m	m		m	
23	Management	Manager	m		m			m	
24	Management	Manager	m		m			m	
25	Management	Manager	m				m	m	
26	Management	Manager	m				m	m	
27	Management	Manager	m				m	m	
28	Management	Manager	m					m	
29	Expert	Economy	m			m			m
30	Expert	Economy		m				m	
31	Expert	Economy		m	m			m	
32	Expert	Economy	m		m			m	
33	Expert	Telecommunication	m		m			m	
34	Expert	Telecommunication		m				m	
35	Expert	Telecommunication	m			m		m	
36	Expert	Telecommunication	m			m		m	
37	Expert	Sociology		m				m	
38	Expert	Sociology		m	m			m	
39	Expert	Management		m	m			m	
40	Expert	Management	m		m			m	
41	Expert	Management	m			m		m	
42	Expert	Management	m			m		m	
43	Expert	Finance		m		m		m	
44	Expert	Finance	m		m			m	
45	Expert	Accounting	m		m			m	
46	Expert	Accounting	m		m			m	
47	Expert	Accounting	m		m			m	
48	Expert	Accounting	m		m			m	

WORKPAPER INTERVIEWS

No. Groups	Position	Factors Behind Regulation		Indonesia's Problem		Problem Solving	
		Competitio	New Techn Mode of OJ WTO/GATS	Economic	Superior Network	Combat At Replace C	Competitive Distribution of Benefits
1 Director	PT Telkom	m			m	m	
2 Director	PT Telkom				m		
3 Director	PT Telkom		m				
4 Director	PT Telkom				m		
5 Director	PT Telkom		m		m		m
6 Director	PT INDOSAT	m					
7 Director	PT INDOSAT	m				m	
8 Director	PT INDOSAT	m				m	
9 Director	PT INDOSAT		m				m
10 Director	PT INDOSAT						m
11 Director	PT INTI			m			m
12 Director	PT INTI	m		m			m
13 Director	PT INTI						
14 Management	Manager						
15 Management	Manager	m			m	m	
16 Management	Manager		m		m		
17 Management	Manager				m		
18 Management	Manager		m		m		
19 Management	Manager				m		
20 Management	Manager		m				
21 Management	Manager	m			m		m
22 Management	Manager	m			m		m
23 Management	Manager	m			m		m
24 Management	Manager						
25 Management	Manager		m		m		
26 Management	Manager	m			m	m	
27 Management	Manager				m		
28 Management	Manager		m				m
29 Expert	Economy	m			m		
30 Expert	Economy					m	
31 Expert	Economy		m		m		
32 Expert	Economy				m	m	
33 Expert	Telecommunication					m	
34 Expert	Telecommunication	m			m	m	
35 Expert	Telecommunication					m	
36 Expert	Telecommunication		m		m		m
37 Expert	Sociology		m				m
38 Expert	Sociology				m		m
39 Expert	Management				m		m
40 Expert	Management					m	
41 Expert	Management		m		m		
42 Expert	Management						
43 Expert	Finance				m		
44 Expert	Finance	m			m		
45 Expert	Accounting	m			m		
46 Expert	Accounting					m	
47 Expert	Accounting		m		m		
48 Expert	Accounting		m		m		m

WORKPAPER OF INTERVIEWS

No. Groups	Position	Opportunities & Challenges				Mission of Regulator			
		National R	Transition	Mode of OI	Investment Pricing	Universal	5 user	Intere	restructur
1 Director	PT Telkom		m						m
2 Director	PT Telkom		m						m
3 Director	PT Telkom	m							m
4 Director	PT Telkom	m				m			
5 Director	PT Telkom		m						
6 Director	PT INDOSAT			m					
7 Director	PT INDOSAT			m					
8 Director	PT INDOSAT			m					
9 Director	PT INDOSAT			m					
10 Director	PT INDOSAT				m				
11 Director	PT INTI	m							
12 Director	PT INTI	m							
13 Director	PT INTI	m							
14 Management	Manager								
15 Management	Manager	m							
16 Management	Manager		m						
17 Management	Manager		m						
18 Management	Manager		m						
19 Management	Manager		m						
20 Management	Manager		m						
21 Management	Manager	m							
22 Management	Manager			m					
23 Management	Manager			m					
24 Management	Manager	m							
25 Management	Manager	m							
26 Management	Manager	m							
27 Management	Manager	m							
28 Management	Manager	m							
29 Expert	Economy		m						
30 Expert	Economy		m						
31 Expert	Economy			m					
32 Expert	Economy			m					
33 Expert	Telecommunication				m				
34 Expert	Telecommunication				m				
35 Expert	Telecommunication	m							
36 Expert	Telecommunication	m							
37 Expert	Sociology	m							
38 Expert	Sociology	m							
39 Expert	Management	m							
40 Expert	Management	m							
41 Expert	Management		m						
42 Expert	Management		m						
43 Expert	Finance		m						
44 Expert	Finance		m						
45 Expert	Accounting	m							
46 Expert	Accounting				m				
47 Expert	Accounting				m				
48 Expert	Accounting	m							

WORKPAPER OF INTERVIEWS

No. Groups	Position	What to Regulate					System
		Licensing (Standard	Quality	Pricing	Terms		
1 Director	PT Telkom	m					
2 Director	PT Telkom	m					
3 Director	PT Telkom	m					
4 Director	PT Telkom	m					
5 Director	PT Telkom	m					
6 Director	PT INDOSAT	m					
7 Director	PT INDOSAT	m					
8 Director	PT INDOSAT	m					
9 Director	PT INDOSAT	m					
10 Director	PT INDOSAT				m		m
11 Director	PT INTI			m			m
12 Director	PT INTI						m
13 Director	PT INTI						
14 Management	Manager	m					
15 Management	Manager	m					
16 Management	Manager				m		
17 Management	Manager						
18 Management	Manager	m					
19 Management	Manager	m		m			
20 Management	Manager	m					
21 Management	Manager						m
22 Management	Manager						
23 Management	Manager	m					m
24 Management	Manager						m
25 Management	Manager						m
26 Management	Manager						
27 Management	Manager	tr					
28 Management	Manager	m					
29 Expert	Economy		m				
30 Expert	Economy		m				
31 Expert	Economy			tr			
32 Expert	Economy			m			
33 Expert	Telecommunication	m					
34 Expert	Telecommunication	m					
35 Expert	Telecommunication						m
36 Expert	Telecommunication						m
37 Expert	Sociology						m
38 Expert	Sociology						tr
39 Expert	Management	tr					
40 Expert	Management	m					
41 Expert	Management	m					
42 Expert	Management	m					
43 Expert	Finance						
44 Expert	Finance	m					
45 Expert	Accounting	m					
46 Expert	Accounting		m				
47 Expert	Accounting				m		
48 Expert	Accounting					m	