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An Interdisciplinary Journal on Applied Business and Economics Research

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RIBER is indexed in: ProQuest (SciTech Premium Collection; Agricultural and Environmental Science Database; Natural Science Collection); EconLit; Google Scholar; Directory of Research Journal Indexing.

Regular Issue ISSN: 2304-1013 (Online); 2414-6722 (Print).

Supplementary Issue ISSN: 2706-8854 (Online); 2706-8846 (Print).

Publisher: GMP Press & Printing Co., 2/F, Wai Yip Building, Cheung Sha Wan Rd., HK.

Enquiry: riber@buscompress.com.

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Review of Integrative Business and Economics Research is published by GMP Press & Printing Co.

Collectivism and Uncertainty Avoidance on Family Firm and Corporate Governance Implementation: An Indonesia Case Study in Social Cognitive Theory Framework

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ABSTRACT

The aim of this study is to examine the role of collectivism and uncertainty avoidance on the effectiveness of the family firms' corporate governance. The role of family on corporate governance is still inconclusive. Collectivism and uncertainty avoidance culture on family firm is a part of the value of the family firm can strengthen or weaken the corporate governance implementation. Based on social cognitive theory, the environment influences the individual's belief or value in which become individual guidance in the ethical behaviour. This study uses the two method of data collection: archival and survey. This result supports the hypothesis that collectivism and uncertainty avoidance will weaken the effectiveness of corporate governance implementation. The result has implication that value in society has to consider on the policy or guidance formulation for more effective implementation.

Key words: family firm, earnings manipulation, social cognitive theory, collectivism and uncertainty avoidance culture, corporate governance

1. INTRODUCTION

In normative paradigm, law enforcement be able to decrease the managers' opportunistic behavior, such as corporate governance as a mechanism to decrease the aggressiveness of management's behaviour on earnings management. However, La Porta et al. (2000) stated that country with weak investor protection has a unique mechanism to protect the investor, such as concentrated shareholder in family (family ownership). It has implication that control from large shareholders be able to decrease the opportunistic behavior of managers (Shleifer and Vishny, 1997).

The study about the role of family shareholders on financial reporting is still inconclusive. In the one side, based on alignment approach, family ownership has lots of encouragement to publish a quality financial reporting (Wang, 2006). In the other side, based on entrenchment approach, as majority shareholders, the family attempts to obtain private benefit by expropriating minority shareholders (Fan and Wong, 2002;

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Setia-Atmaja et al., 2008). Prior research shows that family shareholders hire CEO from their family members (Claessen et al., 2000), but the CEO still has two options; align with shareholders' interest or take opportunity to maximize utility. In appearance, CEO is controlled by majority shareholders, but in fact, there is a possibility that the control of shareholders to CEO inconsistency.

The inconclusive result encourage a research question, whether the value of collectivism and uncertainty avoidance culture on the family firm can influence the ethical behaviour of manager. This study is based on social cognitive theory that an environment sorrounding individual will influence or construct the individual's belief or value and it becomes a guidance the individual's behaviour (Bandura, 1988; Patel, 2003 and 2009). Therefore, the aim of this research is to achieve the empirical evidence about the role of culture in weaken or strenghten the negative relationship between corporate governance and earnings manipulation.

This study uses two dimensions of culture; collectivism and uncertainty avoidance (Hofstede, 1997). Culture is identified through survey in family firms and is interacted with the corporate governance practice of family firms. The measurement of corporate governance implementation uses shareholders right, corporate governance policy, disclosure practice and policy, and the role of audit committee. This study uses the earnings manipulation of Jones's formula (1991).

The results of this study support hypothesis that collectivism culture and uncertainty avoidance culture decrease the effectiveness of corporate governance implementation. This first contribution is empirical evidence about the role of environment in formulating corporate governance guidelines in order to fit with the business environment. This study also contributes to agency theory literature especially empirical evidence about agency conflict in family firms. The third contribution is empirical evidence of social cognitive theory as basis of dilemma decision. The paper is organized into five sections; introduction is in first part, then followed by the literature review and hypotheses development, the third part is research method, the next part contains explanation and discussion of the results of the study, and conclusion and limitation of the study is in the end the paper.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Literature Review

1. Corporate Governance and Earnings Manipulation

The essence of corporate governance mechanism is to overcome conflict between managers as an agent and shareholders as a principal (Shleifer and Vishny, 1997). The managers's behavior can not be monitored perfectly to make sure the managers will behave as shareholders' interest and the ownership of shares is widely dispersed (Jensen and Meckling, 1976; Klein et al., 2005). Each shareholders also has different expectation toward to corporate, hence, corporate governance becomes one of the monitor mechanism to control the managers' shirking behavior (Chan and Cheung, 2012).

Some empirical evidences reveal that the corporate governance mechanism, such as ownership structure and board composition, has effect to managers' opportunistic behaviour, such as conservatism, earnings manipulation, and disclosure

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quality (Huang et al., 2012; Tangjitprom, 2013). Huang et al. (2012) states that the insider shareholders and institutional shareholders have positive effect to the level of earnings forecast conservatism. In country level, the study is conducted by DeFond et al. (2007) also reveals that an annual earnings announcement in countries with low earnings quality provides the less informative earnings. Therefore, this situation has deteriorated the investor assurance to the quality of financial reporting and then has caused depreciation of Indonesian exchange rate and economic crisis in 1997 (Johnson, 2000).

The Indonesian economic crisis in 1997 has forced Indonesian Government to develop a corporate governance guideline. Indonesia adopted that guideline from Organization for Economic Cooperation Development (OECD) and it has been revised several times until 2004 as the last version guidelines (KNKG, 2006). The guideline offers five principles, namely transparency, accountability, responsibility, independency, and fairness. The guideline can be used as foundation for the good corporate governance iimplementation to achieve the high corporate sustainability, compliance, environment and social responsibility, value, and competitiveness (KNKG, 2006). Corporate governance implementation in Indonesia is a voluntary or unpunished activity, so achieving good corporate governance depends on management's commitment.

However, LaPorta et al. (1997) stated that Indonesia is categorized as country with low investor protection. Indonesia is also categorized as country with the high level of earnings management behaviour because of the low investor protection level (Leuz et al., 2003). During 2002 until 2009, Indonesia faces many finance scandals, such as Timah Ltd. in 2002, BNI and Lippo Banks in 2003, and Century Bank in 2009. Even, BNI Bank that has won the best tenth award of good corporate governance from the Indonesian Institute for Corporate Governance in 2002 also faced the financial scandal.

In particular, the OECD's guideline of corporate governance adopted by Indonesia was designed on the assumption that the company owned by the widely dispersed shareholders (Chen and Nowland, 2008). Contrast with the ownership characteristic in Indonesia, the low investor protection level in Indonesia is responded by shareholders with holding the major of shares by family (LaPorta et al., 1998). Claessen et al. (2000) reveal that ownership structure of publicity traded companies in Indonesia is dominated by family. The evidence showed that family controls 71.5% of shares and the remaining shares are owned by corporations 13.2%, states 8.7%, public 5.1%, and financial institutions 2.0%. There are 53.4% firms in Indonesia owned by controlling owner alone, so no other shareholders or second shareholders have more than 10%. Surprisingly, management include CEO, board chairman, or vice chairman from the controlling family own 84.6% firms in Indonesia, so high opportunity for the alignment paradigm may happen in Indonesia.

The alignment theory predicts that family ownership has more incentives to publish good quality of financial statements, becuase the family shareholders concerns with reputation, survival, wealth, and legacy for their descendant (Wang, 2006). Wang (2006) also stated that pointing of CEO by family increases the alignment of interest between both of them, so it can decrease agency problem. Empirical evidence states that the family firms have higher earnings quality than non-family firms (Ali et al.,

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2007; Wang, 2006). Management feels reluctant to manipulate the company's financial reporting (Ali et al., 2007). The ownership of family in firm can control their manager behaviour directly (Demsetz and Lehn, 1985). The family also has information and understand about the company's activities deeply (Andersen and Reeb, 2003).

The other illustration about the characteristic of family ownership in Indonesia is the authority of family shareholders in Annual Shareholders Meeting (ASM). The majority shareholders have significant role to the company's activities indirectly as stated by Company Act no. 40/2007. This Act is published by Stock Exchange Authority (SEC in United Stated). One of rule in this Act states Annual Shareholders Meeting (ASM) have the highest authority to decide company policy, such as dividend policy, hire and dismiss organs of company, such as: board of commissioners, board of directors, auditor independent, and audit committee. When family own the most of shares, so family as majority shareholders fully involves in decesion making or policy through ASM include pointing board of commissioners as their representative in company. ASM also officially has right to receive or refuse management annual reporting.

The asumption of OECD formulation might not match for the whole company conditions as in Indonesia, especially for companies that most of its shares are owned by family or family firms. Ali et al. (2007) stated that the ownership structure determines the level of the agency problems. A conflict of interest between shareholders and management is a problem for the widely ownership companies, while in concentrated companies such family firms, the conflict of interest is between majority and minority shareholders. The condition indicates the corporate governance guidelines that are formulated by OECD might not match with the Indonesian business and social environment. Hence, adopting the corporate governance rules from another country may not be appropriate when the business and social environment between the two countries are different.

The second assumption about the family's ownership is stated by entrenchment theory that the earnings quality of family firms is lower than non-family firms (Fan and Wong, 2002; Setia-Atmaja et al., 2008). This theory states that as majority shareholders, family shareholders maximize their utility by expropriate minority through private benefit (Setia-Atmaja et al., 2008; Claessens et al., 2000). An expropriation is the distribution of wealth from the other party, such as minority shareholders, to majority party because the majority has a private benefits over the minority. For that reason, to achieve private benefit, the strategy of majority shareholders to achieve private benefit hires CEO from their family members (Claessens et al., 2000; LaPorta et al. 2000). The CEO can be controlled and will publish financial information as family interest (Fan and Wong, 2002).

2. Social Cognitive Theory and Corporate Governance Implementation

Social cognitive theory is used by Bandura (1988) to explain an individual's behavior in organization. The environment surrounding individual has significant role to develop the individual's cognitive and behavior. The interaction between informasi from the individual's environment with individual's knowledge and ability creates an individual's guidance in which individu relies on to achieve his/her goals. According

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to opportunistic behavior of managers, the social cognitive theory implies that managers, although his/her behavior is controlled by shareholders or board of commisoners such in Indonesia, still have an authority to behave unethically. The enviroment, such as culture, has important role to influence managers to choose ethical behavior rather than unethical behavior. Kaasa and Vadi (2007) stated that culture influences people's belief and behavior which can contribute or block the process of development and implementation of new ideas.

Patel (2003 and 2009) also states that the decision to do ethical behavior does not depend on a set of rule or universal of values, but individual relies on culture as the specific characteristic of designed practice and operation of corporate in global environment. Patel (2009) gives ilustration of Ringov and Zollo's empirical evidence (2007) that the higher power distance, higher individualism, higher masculinity, and higher uncertainty avoidance have effect to the lower social performance. Braun and Rodriguesz, Jr. (2008) also states that culture is a part of the business and social environment that may affect the effectiveness of the corporate governance practice. Therefore, cultural values of certain society will be changing depend on the changing of politic, social, or environment surrounding the society (Ting and Ying, 2013).

Culture is collective phenomena which studied and implemented by people in the particular society (Hofstede, 1997). Hofstede (1997) did survey to IBM employees around the world and based on the survey, culture is classified into four perspectives, i.e. power distance (from small to large), individualism versus collectivism, femininity versus masculinity, and uncertainty avoidance (from strong to weak). Indonesia, according to Hofstede (1997), is categorized as high/large power distance that shows power inequality between different level of authority such as superior and subordinate, high collectivism that shows group as a central of individual objective, masculinity that shows the admiration of strength and hero, and low/weak uncertainty avoidance that shows the level of society's effort to avoid anxiety and ambiguity in managing life.

In accounting context, the social values are related to the development of accounting system at the subculture level (see figure 1) (Gray, 1988). Guan et al. (2005) also creates relationship between Hofstede's social culture and Gray's accounting values. As illustration, country with higher individualism and lower uncertainty avoidance tends to more likely be professional. In turn, according to Braun and Rodriguez, Jr. (2008) culture influences accounting value and accounting practice. Guan et al. (2005) reveals that country with high individualism tends to increase earnings manipulation, because the society recognizes the individual professional judgment, flexibility in accordance the individual company environment, more likely to disclose or open information, and optimistic in uncertainty future events. Other empirical evidence showed by Kaasa and Vadi (2007) that higher power distance, higher uncertainty avoidance, or higher masculinity in organization affect to lower innovation initiation.

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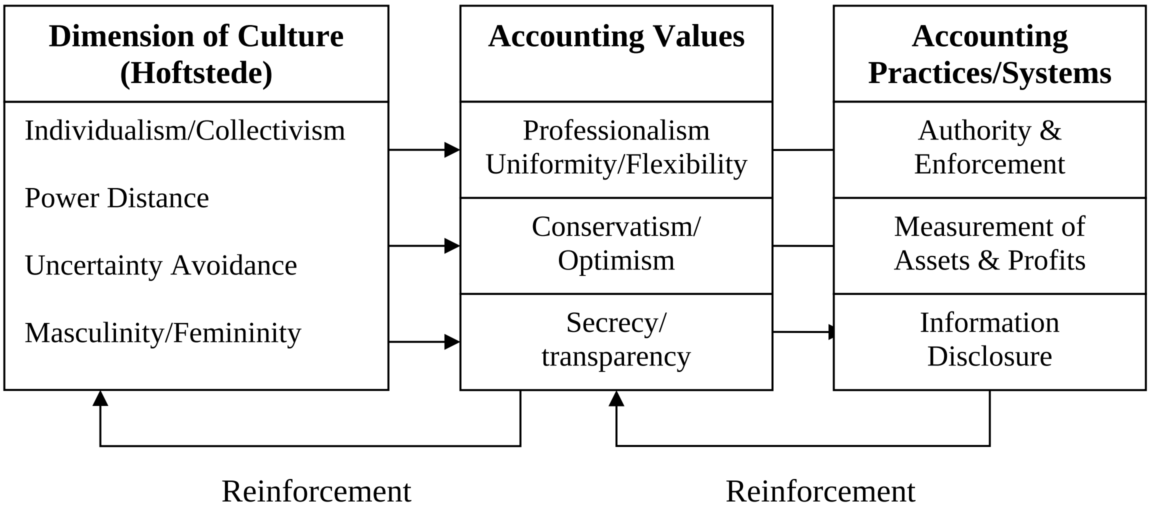
Figure 1: Dimension of Culture and Gray's Accounting Value and Practices



Source: Braun dan Rodriguez, Jr (2008)

2. 2. Hypothesis Development

1. Collectivism on Corporate Governance Implementation

The individualism - collectivism is a dichotomy; one side is individualism and other side is collectivism. The higher individualism has the lower collectivism, but this study prefers to mention high or low collectivism. Important to understand, that there are two meaning of collectivism culture that relates to value and dependence. Kaasa and Vadi (2007) state that the both meaning of this culture causes the difficulty to summarize what implication is in decesion making policy.

Guan et al. (2005) states that higher collectivism encourages lower profesionalism, higher uniformity, higher conservatism, and higher secrecy. Profesionalism relates to maintan individual profesional judgment, uniformity relates to consistency with practice or standard, conservatism relates with preference for the uncertainty of future events, and secrecy relates with the preference to restrict the information. Kaasa and Vadi (2007) has opinion that the higher collectivism creates lower openess of mind.

The level of collectivism is also the degree of dependence individual into his/her groups (Desender et al., 2011; Chan and Cheung, 2012). Chakrabarty (2009) reveals that collectivism has positive correlation with domination of family in company or family concentrated ownership. This culture brings consequence, that his/her group has a cohesive force that is implied each people protects their group beyond to unquestioned loyalty, such as managers loyal to majority shareholders, therefore higher collectivism level lead to higher earnings management level (Desender et al., 2011).

Chakrabarty (2009) states that the collectivism culture in family firm decreases the opportunistic behaviour of managers. The higher collectivism or lower

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individualism will be showed by the greater solidarity and cohesion among members of families. It means the collectivism culture will maintain ownership of their dynasty in their business. Wang (2006) states that pointing of CEO by family shareholders increases the alignment of interest between both of them, because family shareholders directly can control their managers (Demsetz dan Lehn, 1985) and can dirrectly access information or understand about company activities (Andersen dan Reeb, 2003). As consequence, managers will feel reluctant to manipulate earnings (Ali et al., 2007).

According to collectivism values, as stated by Gray (1988), managers will comply with his/her family or society guidance, managers will be loyal and respect to his/her family or society, and managers only rely on family or society's judgment rather than his/her profesional judgment. As the social cognitive theory, environment influence the belief or value of managers, such as in Indonesia. Managers also loyal and respect to the family shareholders as the majority shareholders in company that have highest authority to determine company's policies, such as pointing boards of director member through boards of commissioners, by the annual meeting of shareholders.

It has implication that managers will not implement the good corporate governance because manager is less likely to behave professional. Manager shows the high responsibility or loyalty toward to the majority shareholders' interest. Moreover, managers will encourage the management members to support his/her loyalty through alignment with other orporate organs. Based on the characteristic of collectivism culture, the hypothesis is formulated as below:

H1: Higher collectivism culture will weaken the negative relationship between corporate governance implementation and earnings manipulation behavior.

2. Uncertainty Avoidance on Corporate Governance Implementation

The uncertainty avoidance culture refers an effort of society to decrease the uncertainty in managing their life. In countries with higher uncertainty avoidance tend to rely on more precise laws to minimize ambiguity (Chen and Cheung, 2008; Hofstede, 1997). Guan et al. (2005) states that the high uncertainty avoidance values are showed by uniformity (versus flexibility), conservatism (versus optimism), secrecy (versus transparency), and statutory (versus professionalism). As ilustration, uniformity value indicates consistency with accounting standard, so accounting practice flexibility according to the circumstance is intolerable. Statutory value also indicates compliance to legal requrements and no professional judgment maintanance. As consequences, the society tends to conservative and to be secrecy to avoid legal punishment. Francis and Wang (2008) show empirical evidence that investor protection law can impose client big 4 auditors to publish high earnings quality. Big 4 auditors reluctant to face the law consequences becasue of a failure in client misreporting detection.

Shleifer and Vishny (1997) have opinion that corporate governance mechanism is also one of an effort investor to aviod from the uncertainty return. Agency theory assumes that agent (managers) will be opportunistic from shareholders or act on their own interest. However, the written contract between agent and shareholders can not overcome agency problem because right and obligation of managers can be detailed in that written contract explicitly.

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Such as, US and UK are categorized by LaPorta et al. (1998) have a high investor protection indicates the good corporate governance implementation, because the protection can avoid the opportunistic behavior of managers. Implicitly, the higher uncertainty avoidance has more opportunity to improve the effectiveness of good corporate governance, because the society who has the value tends to open their mind for positive ideas in decreasing ambiguity (Chen and Cheung, 2008). Contrast with societies in lower uncertainty avoidance value, rules, law, or standards can be violated because of pragmatic reasons, moreover, conflicts and ambiguity are interesting and considered as a natural part of life (Kaasa and Vadi, 2007).

Indonesia is categorized by Hofstede (2001) as low uncertainty avoidance culture. La Porta et al. (1998) also categorize Indonesia as a country with low investor protection law. Classen et al. (2000) and La Pota et al. (1999) argue that low investor protection is responded by family concentrated shareholders. The shareholders from family can control the manager's behaviour directly (Demsetz dan Lehn, 1985) and has information or understand about company's activities deeply (Andersen dan Reeb, 2003), because as majority shareholder, family want to control management by hires CEO from their family member (LaPorta et al., 1999). Family shareholders also concern reputation, survival, wealth, and legacy for their descendants of their firm (Wang, 2006).

According to the social cognitive theory, the family concentrated ownership is a special characteric of environment sorrounding managers to decrease opportunistic behavior. The environment characteristic is different with US and UK that have high legal enforcement because of dispersed ownership. Managers reluctant to behave opportunistic, because control from family shareholders has more pervasive impact to managers' behavior than law, such as investor protection law. In implies that the level of uncertainty avoidance culture has no effect to corporate governance implementation. As ilustration, family shareholders as majority have control to corporate manager through the annual meeting of shareholders. Majority shareholders also have board of commisioner who involves in corporate activity to control managers daily activities. If managers behave less opportunistic because of the power of majority shareholders, so the hypothesis below shows the important role of the majority shareholders to create good atmosphere in corporate governance implementation rather than that corporate governance itself. This study predicts that the level uncertainty avoidance has no effect to effectiveness of corporate governnace. Based on this argument, the hypotesis is stated as below:

H2: Higher uncertainty avoidance culture will weaken negative relation between corporate governance implementation and earnings manipulation behavior.

3. RESEARCH METHOD

3. 1. Data collection and Sample Selection

This research uses two types of data: secondary data and primary data. The secondary data is collected from Indonesia Stock Exchange (IDX) for measuring abnormal accruals and scoring corporate governance implementation, meanwhile, the primary

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data is collected by survey for identifying the collectivism and uncertainty avoidance value of company. Measurement abnormal accrual uses financial report from 2008 – 2010 in which financial statement 2008-2009 as basis of estimation of abnormal discretional accruals in the year 2010. Scoring corporate governance uses annual report 2010. Survey was conducted in 2010, but questionnaire are receive gradually until the middle of 2012. This study only uses annual report 2010 for scoring corporate governance implementation, because this score is not significant different from year to year and the ownership of sample does not change significantly.

The scoring of corporate governance is based on guidelines released by Indonesia Government. The samples are the family firms that their shares publicize in Indonesia Stock Exchange, except financial and service companies. The financial and service companies are excluded from the sample because they have unique criteria and heavily regulated by the government authority body. This study traces the ownership of listed company in IDX and other news, such as newspaper, internet, that publishes about sample. This study only uses firms that owned by individual or family more than 10%.

3. 2. Measuring Corporate Governance Score (CGS).

Corporate governance scores of family firms, as an independent variable, will be counted based on items extracted from the company's annual report 2010. The study only uses 30 items from 112 questions of corporate governance guidelines released by Forum for Corporate Governance in Indonesia (FCGI) in 2002. The 30 items include six questions relate to shareholders rights, six questions for corporate governance policy, eight questions for corporate governance practices, eight questions for disclosure practice and policy, and two questions for the role of audit committee. The rest of the questions in corporate governance guidelines (82) such as report meeting between board of director and board of commissioner are not included in corporate governance score because of un-accessibility for this study.

3. 3. Identifying Culture (CLT)

Culture variable is a moderating variable which influences the strength of the Corporate Governance Score (GCGS) and Earnings Manipulation (DA) relationship. The family firm culture is unique, so the study has to perform by survey. There are two kinds of culture that are examined; collectivism level **(CCLT)** and uncertainty avoidance level **(UACLT).** The questions of survey are adopted from König et al. (2007) and Hofstede (1997). Because questions of survey have to be in Indonesian language, so this study translates the original version to Indonesian version. Translation into Indonesia version and back to original version is done three times and pilot test is also done three times to make sure questions in questionnaire suitable with the original version. There are three questions for measuring of collectivism or individualism level, and three questions for measuring of uncertainty avoidance level. The questionnaire is distributed to 15 respondents for each head office and each branch office of sample, so the amount of respondent in each firm is 60 respondents.

The questions of questionnaire emphasize in participant's perception about cultural environment in where he/she works. Their perceptions are indicated using five points of Likert Scale from strongly disagree (1) to strongly agree (5). The company's culture is scored by ratio of total scores of all respondents in the related company for

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each dimention of culture. The highest collectivism score is 15 and the lowest score is 5, and the highest uncertainty avoidance score is 15 and the lowest score is 5.

3. 4. Measuring Earnings Manipulation (DA)

Earnings quality as an independent variable is measured by the level of discretionary accruals (Jones model, 1991). This study uses financial data of sample firms from 2008-2009 to estimate the abnormal discretionary accruals. The primary model for estimating discretionary accruals is as follows:

$$\frac{TA_{i,t}}{Assets_{i,t-1}} = k_1 \frac{1}{Assets_{i,t-1}} + k_2 \frac{\Delta SALES_{i,t}}{Assets_{i,t-1}} + k_3 \frac{PPE_{i,t}}{Assets_{i,t-1}} + \varepsilon_{i,t} \qquad (1)$$

In which,

- TA is the total accruals defined as $TA_{it} = EBXI_{it} - CFO_{it}$; EBXI is earnings before extraordinary items and discontinued operations, and CFO is the operating cash flows.
- $Asset_{it-1}$ is total assets,
- $\Delta SALES_{it}$ is the changes in revenues from the preceding year, and
- PPE_{it} is the gross value of property, plant and equipment.

The coefficients estimated from (1) are used to determine the firm-specific normal accruals (NA_{it}) for our sample firms using the following equation:

$$NA_{it} = \hat{k}_1 \frac{1}{Assets_{i,t-1}} + \hat{k}_2 \frac{\Delta SALES_{i,t}}{Assets_{i,t-1}} + \hat{k}_3 \frac{PPE_{i,t}}{Assets_{i,t-1}} \qquad (2)$$

Finally, the discretionary accruals is the difference between total accruals and the fitted normal accruals, defined as $DA_{it} = (TA_{it}/Asset_{i,t-1}) - NA_{it}$ and uses data in year 2010.

3. 5. Control Variables

We proposed to use leverage which is measured by liabilities and assets ratio of firm i, because high liability can encourage company to manipulate earnings.

3.6. Statistical Model

According to the hypothesis, the coefficient of β_4 must have a positive sign and β_5 must have a positive too. If the sign is positive, it means that the interaction between corporate governance score and culture will strengthen the negative relationship between corporate governance and culture, and opposite. This study predicts that corporate governance has negative relationship with discretionary accruals because it indicates the effectiveness of corporate governance implementation in family firms.

$DA_i = \beta_0 + \beta_1 CGS_i + \beta_2 CCLT_i + \beta_3 UACLT_i + \beta_4 CGS_i * CCLT_i + \beta_5 CGS_i * UACLT_i + \beta_6 LEV_i + \varepsilon_i$ (1)

In which:

DA_i	discretionary accruals of firm i
CGS_i	Corporate Governance Score

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$CCLT_i$	Collectivism Culture Score
$UACLT_i$	Uncertainty Avoidance Culture Score
LEV_i	Leverage = total liabilities/total assets

4. RESULT

4.1. Statistic Descriptive

There are 166 non-financial companies listed in IDX and there are 112 family firms in which family or individual own shares between range 12.83% to 99.75% of the companies' shares. Financial statement do not publish individual or family shareholders, the 112 family firms are collected by tracing the name of ownership until find the individual or family through internet, newspaper, magazines, and other information, such as advertisement that show relationship between shareholders.

Unfortunately, in Indonesia is common that people do not use his/her family name, except in certain race or people who was born after 1980[1]. Therefore, similar name does not indicate that has family relationship. There are 74 companies that should be eliminated from sample, because of some reasons, such annual reports could not be accessed from IDX, companies are in outside Java Island that imposible to survey, or head office and branch office owned or managed by different shareholders. Finally, survey is conducted to 38 firms and respondents from 34 firms complete the questionnaire (see table 1).

Table 1: Sampling Process

Non-financial companies listed in IDX (Indonesia Stock Exchange)	166
The firms' shares owned by individual or family between range 12.83% to 99.75%	122
Companies' annual report that can't be accessed from IDX, companies are outside Java Island, different ownership or managament between head and branch office	74
The research samples	38
The companies did not return the questionnaire	4
Final sample for analysis	34

Before survey is conducted, researchers need to know from corporate secretary or HRD official what the requirements or procedures to distribute questionnaire is. The sample address can be access in IDX through fact book. However, some addresses does not match with the IDX data, so information is got from internet or from branch office that is visited first before head office. All of sample firms want to receive questionnaire directly from researchers, because they also want to know the detail of this study, such as objective, contribution, etc., although researcher send questionnaire together with research proposal. HRD official distribute and collect the questioners, so regularly researchers ask to HRD official to make sure all questionnaire are collected by HRD official.

[1] It is common in Indonesia culture that a baby is given his/her own name by his/her parents or no family name, such as Supriyadi as the 3rd author; no family name is in his name.

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To anticipate the influence of region culture, survey is conducted at the head office and at three branch offices that locates in different provinces with the head office. For example: if the head office is in Semarang city (Middle Java Province), survey also is conducted at branch office like Surabaya city (East Java Province), Jakarta city (Jakarta Province) and Jogjakarta city (Jogjakarta Province), vice versa. The distribution to the fourth city is also based on the fact that the cities are the 4 biggest cities in Java Island. The total of respondents is at least 60 respondents in each sample firm; 15 for head office, 45 for three branch offices.

The mean score for collectivism is 10.84 with standard deviation of 1.78. The highest collectivism score is 14.3 and the lowest score is 4.1. The result suggests that the collectivism level spreads to sample firms. Finally, the mean score for uncertainty avoidance is 11.18 with standard deviation is 1.64. The highest score is 13.3 and the lowest score is 4.2.

Table 2: The Descriptive Statistics of Variables

	N	Minimum	Maximum	Mean	Std. Deviation
$CCLT_i$	34	4.1	14.3	10.840	1.78
$UACLT_i$	34	4.2	13.3	11.179	1.64
$GCGS_i$	34	129	209	171.12	20.73
DA_i	34	-0.14	0.142	0.0037	0.0724
LEV_i	34	0.1250	2.3111	0.5630	0.3817

Corporate governance score are collected from annual reporting and discretionary accrual data are collected from financial statement. Each item in corporate governance formula has value between 1 to 10 in which 10 means the firm obey the corporate governance rules (the best) and 1 for otherwise (the worst). The total maximum corporate governance score is 320, if firm obey the all of corporate governance rules.

The result of descriptive statistic shows that the mean of corporate governance score is 171.12 with standard deviation is 20.73. The result also shows that minimum corporate governance score is 129 and the maximum corporate governance score is 209. The result of descriptive statistic shows that the mean of discretionary is 0.0037 with the standard deviation is 0.0724. The lowest score is -0.14 that shows manipulation earnings through decreasing accruals and the highest score is 0.142 that shows manipulation earnings through increasing accruals.

The study tests the hypotheses using two types of data, primary and secondary data. The secondary data are the shares ownership, earnings quality, and Good Corporate Governance scores. The primary data are gathered by survey for identifying the dimentions of owned family companie's culture. The analysis for hypothesis test is based on the available data from 34 companies. Since, the observation data are very limited, the study conducts several analysis to provide more assurance on the relationships between dependent and independent variables.

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4.2. The Hypothesis Testing

We consider the rule of thumb for minimum observation, so we test the data with the non-parametric test. We performed Pearson correlation analysis to assess the relationships among variables of interest. The Pearson correlations between the transformed data of interested variables are significant. The coefficient correlations between the combining variables of collectivism*GCG score and earnings quality is -0.446 and significant at 5% confidential level (p-value = 0.015). This result supports the hypothesis that collectivism culture significantly weaken the effectiveness of GCG implementation as reflected in earnings quality.

The Pearson correlations between uncertainty avoidance*GCG score and earnings quality are significant as shown by the coefficients of -0.404 (-0.398) with the p-value of 0.30 (0.32). The coefficient signs shows that higher uncertainty will weaken the effectiveness of GCG implementation. Table 3 provides the Pearson correlations among all variables.

Corporate governance variable also has significant negative correlation with discretionary accrual. It implies that the implementation of corporate governance will reduce the aggressiveness of manager to manipulate earnings. The result supports the prior empirical evidences, such as Huang et al. (2012), Tangjitprom (2013), revealed the corporate governance mechanism has effect to managers' opportunistic behaviour, conservatism, earnings manipulation, and disclosure quality. However, collectivism culture and uncertainty avoidance culture does not have effect to the discretionary accrual. The result may shows the possibility role of culture to the management's behavior.

Table 3: Pearson Correlation Matrix of Transformed Variable Data

Description		Trans1_DA
Trans1_GCGS	Pearson Correlation	-0.44***
	Sig. (2-tailed)	0.02
Trans1_CCLT	Pearson Correlation	-0.09
	Sig. (2-tailed)	0.66
Trans1_UCLT	Pearson Correlation	-0.01
	Sig. (2-tailed)	0.97
Trans1_GCGS*CCLT	Pearson Correlation	-0.45***
	Sig. (2-tailed)	0.02
Trans1_GCGS*UCLT	Pearson Correlation	-0.40***
	Sig. (2-tailed)	0.03

Note: ***) Correlation is significant at the 0.01 level

5. DISSCUSION, CONCLUSION, AND LIMITATION

The purpose of this study is to examine the role of collectivism and uncertainty avoidance on the effectiveness of GCG implementation in increasing companies' accountability and transparency through earnings quality. Specifically, the study

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expects that collectivism and uncertainty avoidance will weaken the effectiveness of GCG implementation in improving earnings quality. The direct adoption of the GCG guidelines from OECD may cause the failure of GCG implementation in Indonesia due to different characteristic environment. The empirical evidence can be considered in GCG guidelines in order to fit with the business environment. It also expected to increase awareness of investors when they interprete financial statements and make investment decision related to family-owned companies.

The decision to do ethical behavior does not depend on a set of rule or universal of values, but individual relies on culture as the specific characteristic of designed practice and operation of corporate in global environment (Patel, 2003 and 2009). Braun and Rodriguesz, Jr. (2008) also states that culture is a part of the business and social environment that may affect the effectiveness of the corporate governance practice. Therefore, cultural values of certain society will be changing depend on the changing of politic, social, or environment surrounding the society (Ting and Ying, 2013).

The availability of data is the major limitation of the study. When more data are available, reexamining the model may provide a better result for assessing the role of culture on the effectiveness of GCG implementation. The use of discretionary accruals as a mesure of earning quality may confound the results due to mixed motivations embeded in descretionary accruals, namely efficient, income smoothing, and/or bonus. However, there has been no developed model to separate among different motivation of earning management.

Scoring corporate governance practice only relate to normative aspect, such as the number board of commisionner, pointing independent auditor, or the number meeting between board of commisioners and board of directors. However, there is no information about procedure of financing or investment decison, although this decison disclosure in annual report. This procedure is very usefull to understanding the control of board of commisioners to board of directors.

The future research should compare the role of culture between family firms and non family firms in the effectiveness of corporate governance in order to generalize the role of environment in decision policy. The future research also could compare the role of culture between family firms who have control right higher rather than cash flow right in effectiveness of corporate governance practice in order to understand whether control of majority is consistent. The both of research could be empirical evidence about the role of majority shareholders as corporate governance mechanism.

ACKNOWLEDGEMENT

This study uses a part of data funded Posco Tj Park in 2010

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