THE EFFECT OF FAMILY CONTROL ON THE ACCOUNTING QUALITY: EVIDENCE FROM INDONESIAN COMPANIES

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ABSTRACT
This study examines the effect of family control on the accounting quality. Indonesia provides unique evidence due to concentrate of ownership, dominance family firms, and low accounting quality. This study finds that family control has a non-linier relation to the accounting quality. When the family control is low, the entrenchment effect is more dominant than the alignment effect to the accounting quality. However, when the family control is high, the alignment effect is more dominant than the entrenchment effect.

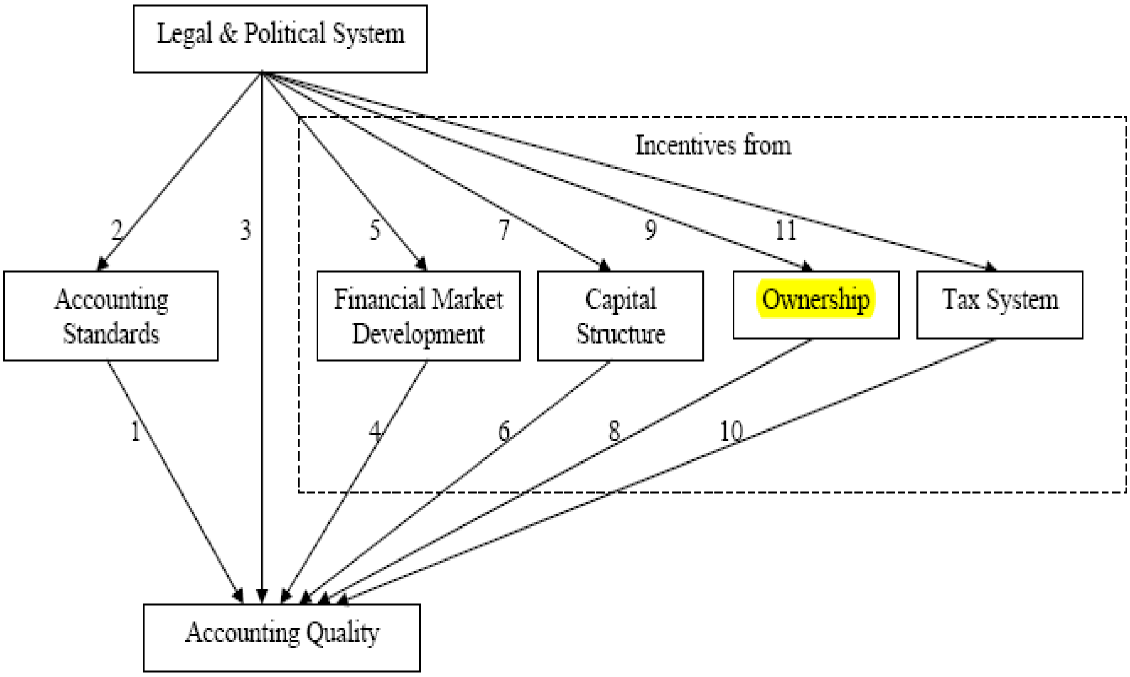
INTRODUCTION
The quality of financial accounting information[1]has been an issue of considerable interest of standard setters, practicing professionals, and academic researchers, especially in accounting scandal era (Enron, Lehman Brother, WorldCom etc.). Based on some previous studies (Graham and King, 2000; Fan and Wong, 2002; Leuz et al., 2003; Haw et al., 2004; *PricewaterhouseCoopers*, 1999, 2002), the quality of accounting information in Indonesian companies are relatively low compare to the other countries, even to other East Asian countries. This incurs despite Indonesian accounting standards were derived from the common law countries accounting standards, that are reported have higher quality than code law countries on some studies (Ball et al, 2000; Guenther and Young, 2000; Ernstberger and Vogler, 2008). The first (1973) and the second (1984) version of Indonesian accounting standards were developed based on US GAAP, and the third version, that is still prevailing now, (since 1994) are referred to the International Accounting Standards (at that time), or since 2001 known as International Financial Reporting Standards (IFRS). Even, Indonesian accounting standard boards has a plan to finish the convergence process of Indonesian accounting standards to the IFRS by 2012, in order to improve the quality of accounting information in Indonesia (Sinaga, 2009).

The potential reason for that phenomenon is the quality of accounting information is not only determined by accounting standards, as reported in some studies. These studies provide mixed result whether post adoption of IFRS will increase the quality of accounting (as reported by Ashbaugh and Pincus, 2001; Barth et al. , 2006, 2007, 2009; Yu, 2005; and Chai et al., 2008), or decrease the quality of accounting information (Duangploy and Gray, 2007; Jeanjean and Stolowy, 2008), and even mixed result in one research, i.e. some measurements show increase, but other measurements show decrease (Devalle et al., 2009; Chen et al., 2009). This have acknowledged in the Statement of Financial Accounting Concepts (SFAC) No. 2 (FASB, revised 2008) that the quality of accounting is also determined by institutional environment. Many empirical studies have supported that proposition (Li, 2010; Ball, et al., 2003; Huang, 2001; Prather-Kinsey and Shelton, 2005; Ding, 2006; Daske et al., 2008; La Porta et al. ,1998; Hung, 2001; Wang, 2007; Bushman and Piotroski, 2006; Lang et al., 2006; Spence, 1973; Francis et al., 2005; Huddart et al., 1999; Burgstahler et al., 2007; Sun, 2006; Jacobson and Aaker, 1993; Ali and Hwang, 2000; Ball and Shuvakumar, 2005; Fan and Wong, 2002; Hwa et al. ,2004; Kinnunen et al., 2000; and Guenther and Young, 2000). Specifically, the most recent studies on the effect of IFRS adaption (Li, 2010) reports that mandatory adaption of IFRS in European Union countries, same as Indonesian case, significantly reduce cost of equity only in countries with strong legal enforcement mechanisms, which Indonesia does not have. This result is consistent to the result of Daske et al. (2008). Have reviewed all research on adoption of different Generally Accepted Accounting Principle (GAAP), Soderstrom and Sun (2007) identified some institutional factors that majorly determine the accounting

[1] The focus of this research is on the quality of financial accounting information, which is differentiated to the other accounting information based on the characteristics of the user and the type of information. Financial accounting is characterized as accounting information prepared for users who have limited access to the company's operation, and the type of information is broad (cover an entity as whole) and for general purposes, in the form known as financial statements, according to the SFAC No. 1 (parg. 27). In this study, term of financial accounting quality is sometimes shortened to the accounting quality, but has same meaning as financial accounting quality.

quality in a country, besides the accounting standards, as shown on Figure 1. This review of Soderstrom and Sun (2007) is consistent to the Holthausen (2009:448),"Many forces shape the quality of financial reporting, and accounting standards should be viewed as but one of those forces. Indeed, the international accounting literature suggests that the effect of accounting standards alone may be weak relative to the effects of forces such as managers' incentives, auditor quality and incentives, regulation, enforcement, ownership structure, and other institutional features of the economy in determining the outcome of the financial reporting process."

Figure 1
Institutional Environment Determine Accounting Quality



Source: Soderstrom and Sun (2007:688)

As in Soderstrom and Sun (2007) review, one of the institutional environments is ownership structure[2], which is reported specific at Indonesian companies. Ownership structure includes the ownership concentration level and type of ownership concentration, which is both of them is matters to company performance in Asian countries context, except in Hong Kong and Singapore (Heugens et al., 2009). La Porta et al. (1998) study aware us, that the concentration of ownership are more dominant than dispersed ownership in the world, as also supported in some other studies (Shahid, 2003; Edwards and Weichenrieder, 1999; Chirinko, et al., 2003; Faccio and Lang, 2000; Manawduge, et al., forthcoming; Jung and Kwon, 2002; and Azofra et al., 2003). In comparison to the other countries, the ownership of Indonesian companies tends to be more concentrated on some major stockholders (La Porta et al., 1998; Claessens et al., 1999, 2000; Husnan in Zhuang et al., 2001; Beauty, 2002; and Feliana, 2003). In addition, family control is prominence in Indonesian companies (Husnan in Zhuang et al., 2001; Claessens et al., 1999; Tabalujan, 2002; Feliana, 2003; and Siregar and Utama, 2008).

Recently, Swasembada magazine report (2011) the result of their survey that more than 90% companies in Indonesia are owned and controlled by family. Further, Djatmiko (2011) and Soelaeman (2011), in that magazine, report that although some of those companies are listed firms, control of the companies are majorly still on the hand of family.

The impact ownership structure on the quality of accounting have been examined extensively, however the results are inconclusive. Some studies report that the associations between family control and

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[2]According to Jensen and Meckling (1976, p.1), ownership structure is the relative amount of ownership claims held by insiders and outsider.

accounting quality are positive (Wang, 2004; Ali et al., 2007; Jiraporn and Dadalt, 2007; Siregar and Utama, 2008), negative (Chau and Gray, 2002; Ho and Wong, 2001; Chen and Jaggi, 2000; Machuga and Teitel, 2009; Feliana, 2003; and Atmaja et al. , 2008), and inverted U curve (Wang, 2006; and Munir and Saleh, 2009).

A relationship between family control and accounting quality is not only suggested by academic research, but also in some accounting scandals. Some accounting scandals indicate that there is a relationship between family control, and accounting quality, such as accounting scandals of Rite Aid Corp., Campbell Soup Co. and Time Mirror Company in the US (SEC, 2002; DeAngelo and DeAngelo, 2000).

The relationship between family control and accounting quality in Indonesian companies has not extensively studies, although Indonesian provide unique characteristic in term of family firms and accounting quality. Therefore, this study provides more evidences about it.

By using one country, i.e. Indonesia, this study holds other institutional environment except ownership structure, constant, such as financial market development, tax system, regulation and enforcement. This is consistent to commentary discussion by Holthausen (2003:283) on Ball et al. (2003) study, ”international comparisons are not the most powerful tests of the hypothesis that institutional structures beyond accounting standards affect the characteristics of financial reporting, because there are so many things that are difficult to adequately control for in cross-country work. The trade-off of course, is that there are greater differences in institutional structures across countries. As an alternative, there may be within country changes in standards or institutions that would isolate certain effects better than cross-country comparisons. In those cases, we may be able to hold more features of the overall reporting regime constant in the experiment than we can when making cross-country comparisons.”

Using Indonesian listed companies data from 2008-2010, this study finds that there is a non-linier relation between family control and accounting quality. Family control has a negative association to the accounting quality when the family control is low. However, when family control is high, the family control has a positive association to the accounting quality.

This study aims at contributing to the theory and literature development, and to the standards setters, also policy making body, where are in Indonesia and in other IFRS adopted countries. Specifically, the contributions of this study are as follow. First, this study will provide more evidences about the second type agency theory, as development of original agency theory. Second, due to employment of multiple measurement of accounting quality, this study will show a measurement of financial accounting quality that is sensitive to the institutional environment. Third, the result of this study is useful to the accounting standard setters and other policy making bodies in Indonesia and others countries that have adopted or are considering adopting the IFRS in order to improve their financial accounting quality. Fourth, this study is also relevant to many countries that have some extent of family firms.

The remainder of this paper is organized into five sections. In the next section, literature review is discussed and hypotheses are developed based on those literature. Section three explains the method that is employed to test the hypotheses. Section four presents the result and section five provides the discussion of the result. Finally, the limitations of this study and suggestions for future research are identified in the section six.

LITERATURE REVIEW AND HYPOTHESES

Financial Accounting Quality

The overall quality of financial accounting information is decision usefulness (SFAC No. 2 by FASB; Framework for the Preparation and Presentation of Financial Statement by IASC, which is fully adopted by Indonesian Financial Accounting Standards). There are two primary qualities so that accounting information useful for decision making, namely relevant and reliability. To be relevant, information must be timely and it must have predictive value or feedback value or both. To be reliable, information must have representational faithfulness and it must be verifiable and neutral. Comparability, which includes consistency, is a secondary quality that interacts with relevance and reliability to contribute to the usefulness of information.

In the empirical research paper, the accounting quality is represented by earnings quality and measured by several constructs. Earning quality as a proxy of accounting quality because “it has been difficult to find direct evidence of usefulness (decision usefulness) of other financial statement information, unlike the impressive evidence of market reaction to earnings …" as stated in Scott (2009:166). This is consistent to SFAC No. 2 (FASB, 2008, parg. 43) "The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components." Therefore, this study proxy financial accounting quality by earnings quality.

Previous accounting studies employ several constructs to measure earnings quality, because accounting quality is a broad concept with multiple dimensions as argued by Burgstahler et al. (2006). Relating to investor decisions, as a major users of financial accounting information, Francis et al. (2004) classified several constructs of earnings quality in prior accounting studies to two groups, i.e. accounting-based and market-based earnings quality attributes.

Accounting-based earnings quality attributes

From thoroughly review of prior accounting studies, Francis et al. (2004) identified four constructs of earnings quality based on accounting information only, namely accrual quality, persistence, predictability, and smoothness.

Accrual quality is a measure of earnings quality in term of closeness earnings to the cash. Earnings that map more closely to the cash are more desirable (Penman, 2001; Harris et al., 2000). Dechow and Dichev (2002) propose and test a measure of earnings quality that capture the mapping of current accruals into last period, current period and next period of cash flow, and Francis et al. (2005) demonstrate that this measure is associated with measures cost of debt and cost of equity.

Persistence captures earnings sustainability. Earnings persistence are desirable because of recurring (Penman and Zhang, 2002; Revsine et al., 2002; Richardson, 2003). Analysts sometimes focus on recurring earnings. Francis et al. (2004) measure earnings persistence as the slope coefficient from a regression of current earnings on lagged earnings.

Predictability is the ability of earnings to predict itself (Lipe, 1990). Predictability is an element of relevant in the FASB's Conceptual Framework, and therefore is a desirable earnings attribute from the perspective of standard setters. Predictability is also valued by analysts and is an essential component of valuation (Lee, 1999). Francis et al. (2004) employ model that are developed by Lipe (1990) to measure predictability, i.e. by error variance of prediction from time series earnings model.

Smoothness is a desirable earnings attribute derive from the view that managers use their private information about future income to smooth out transitory fluctuations and thereby achieve a more representative, hence more useful, reported earnings numbers (Ronen and Sadan, 1981; Chaney and Lewis, 1995; Demski, 1998). Smoothness is measured by the ratio of income variability to cash flow variability (Leuz et al., 2003).

Market-based earnings quality attributes

Three constructs of earnings quality are identified by Francis et al. (2004) from prior accounting studies that are based on relations between market data and accounting data, namely value relevance, timeliness and conservatism.

Value relevance is the ability of earnings to explain variation in returns, where greater explanatory power is desirable (Joss and Lang, 1994; Collins et al.1997; Francis and Schipper, 1999; Lev and Zarowin, 1999). According to Barth et al. (2001), value relevance is a measure capture combined two primary qualities of accounting, relevance and reliability, in the FASB's Conceptual Framework. Francis et al. (2004) measure value relevance by explanatory power of earnings level and changes for returns.

Timeliness is derived from the view that accounting earnings is intended to measure economic income, defined as changes in market value of equity (Ball et al., 2000a). Timelines is the ability of earnings to reflect good news and bad news, which are both of them are captured in returns, so timelines is measured by explanatory power of a reverse regression of earnings on return (Ball et al, 2000; Bushman et al., 2004, Francis et al., 2004).

Conservatism is derived from same view as timeliness, but conservatism focus on the differential ability of earnings to reflect economic losses (measured as negative stock returns) versus economic gains (measured as positive stock returns). Watts (2003) present several arguments supporting the view that conservatism is a desire attribute of accounting earnings. Conservatism is measured by the ratio of the slope coefficients on the negative returns to the slope coefficient on the positive returns in a reverse regression of earnings on returns (Basu, 1997; Pope and Walker, 1999). Combined timeliness and conservatism are sometimes described as transparency, a desire attribute of accounting earnings (Ball et al., 2000a)

All of the above earnings attributes are employed in this study in order to find which attributes of earnings is sensitive to the agency problems in the company, specifically to the firm ownership structure.

Ownership

Mintzberg (1983) suggests two prime dimensions of ownership. First dimension is involvement (and its opposite, detachment), distinguishes between owners who influence the decisions or actions of the firm and those who do not. Second dimension is concentration (and its opposite, dispersion), distinguishes corporations whose stocks are closely held from those whose stocks are widely held. Cross-classification of the two dimensions produces four types of ownership: concentrated-involved, concentrated- detached, dispersed-involved and dispersed-detached. The more involved the owners, and the more concentrated their ownership, the greater the power they should have in influencing the corporation (Mintzberg. 1983).

Table 1
Dimension of Ownership

	Involvement	Detachment
Concentration	Concentration - Involvement	Concentration - Detachment
Dispersion	Dispersion - Involvement	Dispersion - Detachment

Source: adapted from Mintzberg (1983)

Applying Mintzberg (1983) methodology, firms majority owned by an individual, a family, or an entity (that is owner-controlled firms) fall under the first category (Chaganti and Damanpour, 1991), therefore family have greater power in influencing company operation. The family owner usually has active power in the company, because most of the management team is the owner or the family of the owner, as suggested in the characteristic of family control firm. Active power—usually in the hands of a firm's executives—is the power literally to control key decisions regarding products, markets, and investments. Latent power, in contrast, is the power to constrain certain decision choices (Herman, 1981); owners who do not actively manage the corporation have only the power to constrain. On the other hand, in the company where financial institution as the largest owner, the influence of the institutional owner in company is latent rather than active. The active power is still in the hands of management. Ownership of a sizable block of stock does not automatically confer active control because it does not necessarily provide the role or status for directly making corporate decisions. It does put the outside institutions in a strategic position (Dye, 1985), and provide them with an opportunity to modulate internal strategic choices, however. Other types of largest owner, such as state, usually have also latent power instead of active power.

This theory is supported empirically. Claessens et al. (2002a) study provides evidence that only family control causes significant negative association between the wedge of control and cash-flow right with the firm value. State control causes some extent the negative association also, but not as stronger as family control. In addition, they show that is no significant association when the principal owner is widely held corporation and widely held financial institution. Claessens et al. argue that the difference in the valuation effects by type of owner could arise from the fact the manager of family firm control have more ways to divert the benefits to themselves compared with managers at firm controlled by widely held corporation and widely held financial institution. In addition, the other controls is too detached from the firm (Shleifer,1998), while compared to the other control, family controlling owner have more direct means to influence the company, due to their long investment horizon and active involvement in management (Chen et al., 2008). Further, in term of the impact on the voluntary disclosure of the firm, Chen et al. (2008) provide evidence that the family ownership variable is significantly negative in all specifications; indicate that family ownership dominates concentrated institutional ownership and nonfamily insider ownership in explaining the voluntary disclosure propensity. While, after controlling for family ownership, neither nonfamily insider ownership nor concentrated institutional ownership, however measured, has incremental power in explaining good news or bad news disclosure.

This study only focuses on family control ownership that found specific in Indonesian institutional environment. The other types of control are also found in Indonesia, but not dominant.

Agency Theory and Ownership

Originally, agency theory that was proposed first time by Berle and Means (1932), and popularized by Jensen and Meckling (1976) argue that agency problems occurs in the diffuse ownership corporation between owners, as a principal, and management, as an agent. The assumption is both parties are utility maximizer, so there is a good reason to believe that the agent will not always act in the best interests of the principal. Recently, some studies provide evidences those in concentrated ownership corporation, the agency problems arises between controlling and non-controlling shareholders, as known as second type of agency problems (Su et al., 2008; Young et al., 2003; Gilson and Gordon, 2003). It will produce potential for private benefits of control – benefits to the controlling shareholder not provided to the non-controlling shareholders. Zu and Ma (2009) proposed a triple principal-agent relationship as a conceptual framework in order to provide a comprehensive description about all of the possibilities of principal-agent relationship, illustrated in figure 1. In disperse ownership structure firms, the conflicts of interest arises between disperse investors and boards/executives. This is the first the principal-agent relationship, namely between disperse shareholders who are minority shareholders and the board of directors, mostly referring to the Anglo-American capital markets. The board of directors situates in a better position than minority shareholders in this duplet, because minority shareholders actually cannot monitor the board directly for the extremely high costs (one evidence is provided by Firth et.al, 1999, that when ownership is dispersed there is greater managerial power and CEOs can award them higher pay). In the concentrated of ownership firms, the second principal-agent relationship arises, namely between majority shareholders and the board of directors. Majority shareholders situates in a better position in this duplet, because the costs for them to monitor, assess or dismiss the board are relatively low. The majority shareholders can take steps to discipline or remove poorly performing executives, and the costs of this monitoring role are quite high, so in practice it is only large investors who can afford to actively intervene in a company's affairs (Demsetz and Lehn, 1985; Shleifer and Vishny, 1986; Khan et al., 2005). So there are dual principals for the board, i.e. majority and minority shareholders. If the two principals have conflicting objectives or decisions (Dharwadkar et al., 2000; Su, Xu, and Phan, 2008; Young et al., 2003), the board would be in a dilemma, and it would have to choose an eclectic action. The third is the principal-agent relationship between minority shareholders and majority shareholders. The minority shareholders can free ride on the major shareholders monitoring of management. In this duplet relationship majority shareholder also situates in a better position because of their controlling and informational advantages. Thus minority shareholders situates in the weakest position in the tripod.

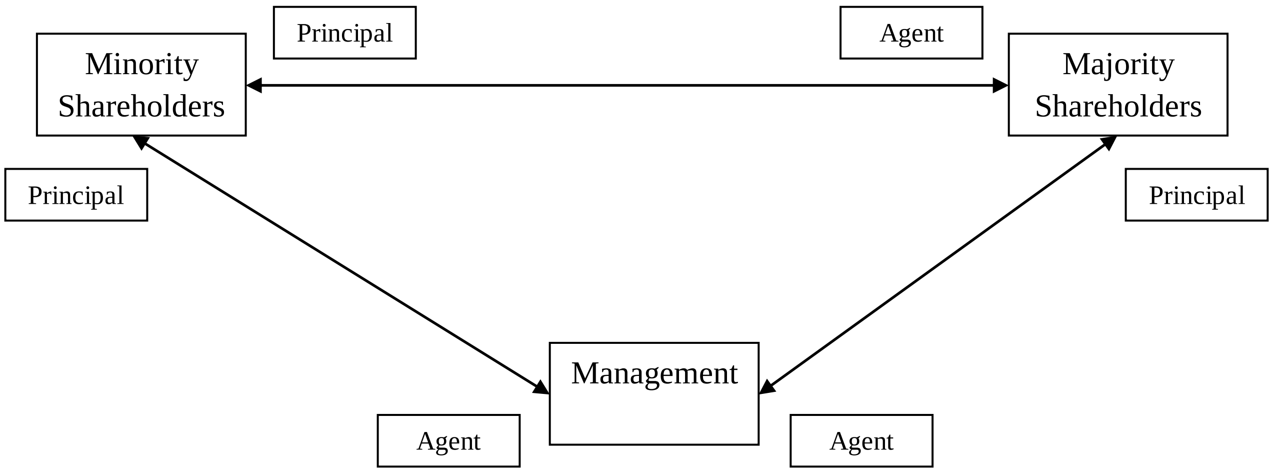
For controlling behaviour of the insider, there is monitoring and bonding cost (Jensen and Meckling, 1976). One form to monitor insiders is by asking accountability of company management. Accounting, especially financial statement as the output of financial accounting, presents firm performance, as a stewardship of agent to the principal for management of the fund that is trusted to the agent. On the other hand, in order to reduce costs, agent guarantees that he or she will limit his or her activities that are not align to the principal interest, this is called by bonding cost. The bonding cost will take such form, i.e. preparing financial statement to inform inside firm information to the outsider, including to the principal, and then having third party to assure that financial statement.

However, not all information can be disclosed on the financial statement, so there is still information asymmetry (Akerloff, 1970) between insiders and outsiders. In concentrated ownership companies, the information asymmetry is greater between controlling and non-controlling shareholders, than between management and controlling shareholders. In addition, although accounting standards do regulate information contents of the financial statement, judgments and estimations are still needed, thus it will affect the accounting numbers. This is consistent to the SFAC No. 1 (FASB, 2008. parg. 20) that stated about one of limitations of financial statement is “the information provided by financial reporting often results from approximate, rather than exact, measures. The measures commonly involve numerous estimates, classifications, summarizations, judgments, and allocations.” Further, there is choice among accounting methods, as stated in SFAC 2 (FASB, 2008, parg 10.): “Consequently, those who must choose among alternatives are forced to fall back on human judgment to evaluate the relative merits of competing methods.” In addition, there is usually time lag between new events requiring new accounting standards and authorization of accounting standards. A rigid accounting policies is impossible, even the IFRS, which is dominantly adopted by countries in the world, is more principle based (Ball, 2009). Accounting policies, include methods, estimations and judgments, are responsibility of management. Managers can use their firm specific knowledge to choose accounting policies that are accurately reflect the firms’ underlying economic. According to the economic consequence theory (Zeff, 1978), accounting policy choice will effect to the firm value. As consequence, managers will do some actions to the choices of accounting policy, as predicted by Positive Accounting Theory (Watts and Zimmerman, 1986).

Management choice to the accounting policy in the firm that ownership concentrated on the major shareholders is influenced by the major shareholders interests, as predicted by theory of power (French and Raven, 1959; Robbins and Judge, 2009). Major shareholder has formal power on management of the company; the source of formal power is from coercive, reward and legitimate power.

Therefore, controlling shareholder will affect the quality of information that is presented in the financial statement.

Figure 2
Triple Principal-Agent Relationship



Source: adapted from Zu and Ma (2009: 144)

Family Control

The ownership can be concentrated on the hand of many type shareholders. One of them is the family shareholders. The existence of family control has different impact to the company due to the specific characteristic of family control firm and concentrated-involved type ownership, consistent to Mintzberg's (1983) typology. In addition, family control firms are interesting to be studied because most countries also have family firms, although the dominance to the business is various. Further, in family firm control there are a lot of tensions among parties that have different perspectives, so that it may provide different influence to the company performance depend on the strongest tension. In family control firms there are three overlapping perspective that shows the range of interests that exists, namely the company, the owner, and the family. Different parties will have different interest depend where they stand within the three cycles. This is illustrated on figure 3. Only controlling owner stands in the intersection of three perspectives that show how difficult his/her position in the family firms.

From the previous studies, family control is prominence in Indonesian companies. Husnan (Zhuang et al. (ed.), 2001) report that two third of Indonesian listed companies are controlled directly and indirectly by family, during 1993-1997. In addition, Husnan shows when the companies go public, the founding and family still hold majority ownership.

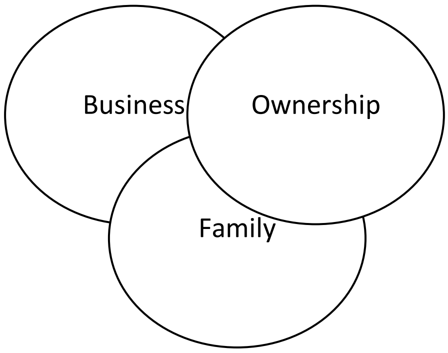
In Indonesian companies, controlling owners highly involves in the management of companies, so it may suggest high monitoring management by controlling owner and reduce the classic type of agency problem between management and owner. This is supported by Claessens et al. (2000) study. They report that a member of the controlling family or an employee of the controlling widely held financial institution or corporation is the CEO, chairman, honorary chairman, or vice-chairman of the company occurs in 84.6% of Indonesian sampled firms, this make Indonesia as the second largest proportion of sampled firm in this measurement comparing to other 8 East Asian countries. As argued by Claessens et al. (2000), this measurement shows the separation of control and management. Then, 67.1% of ultimate control of Indonesian companies is in hand of family, and this is the largest family control across 9 East Asian countries. Family control in Indonesia mostly occurs in small size firms, although the different is not significant to large and medium size firms. In term of separation of ownership and control, in all countries, except Japan and Singapore, family controlled firm have the most separation of ownership and control. Among family controlled firms in Indonesia, the largest separation of ownership and control occurs in medium size of firms. Further, Indonesia stand out with the largest number of companies controlled by a single family, more than four on average; while other countries only shows every single family control between 1.04 -2.68 companies on average.

The family control in Indonesian companies also suggest by Tabalujan (2002). He find 59.8% of Indonesian listed companies have two or more member of board directors who are family in 1997, and this number reduce to 40.7% in 2001. Using 1991-2001 data, Feliana (2003) reports that 46.1% of Indonesian listed companies have family as the largest shareholders. Finally, using data 1995-1996 and 1999-2000, Siregar and Utama (2008) show 69.27% of Indonesian firms have family who hold more than 50% ownership.

Overall, all of previous studies provide evidences that family control is dominant in Indonesian companies. The separation of management and control is low, but separation of ownership and control is high in Indonesian companies. These results may suggest that in Indonesian companies, the first type of classical agency problem between management and owner is less than the second type of agency problem between controlling shareholders and non-controlling shareholders.

Based on survey of Susanto et al. (2008), majority Indonesian companies are family business enterprises rather than family owned enterprises. The family business enterprises are companies that are owned and managed by family, while family owned enterprises are owned by family, but managed by professional managers. Key management position in the family business enterprises are still hold by family. This survey supports the result of La Porta et al. (1999) and Burkart et al. (2002) study. In La Porta et al. (1999), Indonesia is classified as a weak shareholder protection country. Based on La Porta et al. (1999) study and Burkart et al. (2002) model, in the country with weak shareholder protection, succession in the firm owned and managed by its founders are to their heirs, not to the professional managers.

Figure 3
The Three Intersections in the Family Firms



Source: Adopted from PwC Family Business Survey 2010/2011 (2010:3)

Family control firms have seven specific characteristics. Using Indonesian firms data, Susanto et al. (2008) has identified the seven characteristics of family control firms, namely (1) significant family member involvement in company management, (2) family member involvement in the company's operation start since young age, (3) facilitate learning environment for family member and prospective successor, (4) trust among family members, (5) cohesiveness and strong family ties as the unifying enterprise, (6) blur job description, (7) double leadership in the company operation, i.e. one is a formal leader, another is an informal leader that usually has more power than formal leader. These characteristics of family firms in Indonesia are majorly consistent to the PwC Family Business survey across 35 countries, which Indonesia is not included. These family firm characteristics indicate that in the family control firm there is greater agency problem between family and non family owner, than between family owner and management, because management are under control family owner (Shleifer and Vishny, 1997; Jensen and Meckling, 1976).

Further, Susanto et al. (2008:xvi-xvii) identified that family control firms faces seven major problems, namely (1) conflict of values, i.e. between value of business and value of family, (2) succession, (3) recruitment the right person in the right place, (4) alignment between family interest and business requirement, (5) setting remuneration level for family member actively involved in the business and professional managers, (6) availability of family members that have required competency to promote in a position in the management team, and (7) decisions about the reinvestment of profits in business versus the payment of dividend. These family problems is worldwide family business issues, because five of the seven problems facing by family control firms based on Indonesian data is consistent to the result of the PwC Family Business survey 2010/2011 across 35 countries, which Indonesia was not included. These seven problems in the family control firms cause a tension, namely family control can align or entrench the value of the firm.

In line with the characteristics and problems of family control firm, there are two competing hypotheses in term of the impact of family control to the quality of financial accounting information, i.e. entrenchment and alignment hypotheses.

Entrenchment hypothesis was stated that the entrenchment effect will motivate company to opportunistically managed accounting information; therefore it will reduce the quality of financial accounting information. This is consistent with the incentive and opportunity to manage accounting information. First, in the family control firm, family usually hold large enough ownership in the company, so family owner may enjoy substantial control that give family owner incentive to expropriate wealth from non-controlling shareholders, consistent to the traditional view (Fama and Jensen, 1983; Morck et al., 1998; Shleifer and Vishny, 1997). Second, the family owner and their relatives hold significant position in management teams, board of directors and board commissioners, and limit that position from professional managers (Anderson and Reeb, 2003a, Villalonga and Amit, 2006), that is consistent to the findings in Indonesian family control firms in Susanto et al. (2008). These firms may have inferior corporate governance because of ineffective monitoring by the board. Third, greater information asymmetry is between family owners and non-family owners because family owners or the relative or heir held important position on both the management teams and the board of directors, so they will have inside information. Francis, Schipper, and Vincent (2005) suggest that information asymmetry lowers the transparency of accounting disclosures. As a result, family members have both the incentive and the opportunity to manipulate accounting information for private rents. Therefore, the entrenchment effect predicts that family control is associated with the supply of lower accounting quality. Some previous studies provide the evidence about the prevailing the entrenchment hypotheses in the association between family control and financial accounting quality (Chau and Gray, 2002; Ho and Wong, 2001; Chen and Jaggi, 2000; Machuga and Teitel, 2009; Feliana, 2003; and Atmaja et al., 2008)

A competing hypothesis is the alignment hypothesis, which is based on the argument that family control firms have incentives to report accounting information in good faith and thus accounting are of higher quality for some reasons. First, families tend to hold undiversified and concentrated equity position in their firms. Thus unlike the free rider problem inherent with small atomistic shareholders, families are likely to have strong incentives to monitor managers (Demsetz and Lehn, 1985, Shleifer and Vishny, 1997). It suggests that controlling families might monitor firms more effectively, such as "No Absentee Landlords" in Weber et al. (2003:110), are observed in the boards of directors of founding family firms (Anderson and Reeb, 2003b, Weber et al., 2003). Moreover, better knowledge of the firm's business activities by family owners (Anderson and Reeb, 2003a) enables them to detect manipulation of reported numbers, thereby keeping this activity in check. Second, because of family members' long-term and sustainable presence in the firm (Anderson and Reeb, 2003a; Villalonga and Amit, 2006) and their intention to preserve the family name, family owners have a greater stake in the firm than nonfamily professional executives. According to Burkart et al. (2003), the long term and sustainable family control on the firms due to three reasons, i.e. amenity potential[3] (as suggested by Demsetz and Lehn, 1985), reputation protection and possibility of expropriation by outside shareholders. It will discourage family firms from opportunistically managing accounting information, because activities such as earnings management are more likely to be short-term oriented and perhaps even detrimental to long-term firm

[3] The term ''amenity potential,'' suggested by Demsetz and Lehn (1985), refers to nonpecuniary private benefits of control, meaning utility to the founder that does not come at the expense of profits. A founder may derive utility from being able to influence the operation of the firm. If the amenity potential is large, we expect families try to maintain control as long as they can.

performance. The long term business perspective of family firms is still reported using the newest 2010 family business data across 35 countries (PwC, 2010). Hence, family owners are more likely to forgo short-term benefits from managing accounting information because of the incentives to pass on their business to future generations and to protect the family's reputation. Accordingly, the alignment effect implies that family control firms are less likely to engage in opportunistic behaviour in reporting accounting information because it potentially could damage the family's reputation, wealth, and long-term firm performance. Thus, family control firms are motivated to report accounting information of higher quality than nonfamily control firms. This alignment hypotheses is supported by some previous studies (Wang, 2004; Wang, 2006; Ali et al., 2007; Jiraporn and Dadalt, 2007; Siregar and Utama, 2008).

Furthermore, limited studies find an inverted U–shaped relation between family control and the quality of financial accounting (Wang, 2006; and Munir and Saleh, 2009); consistent to Anderson and Reeb (2003) study that find the relationship between family ownership and firm performance is non-linear. Using S&P 500 companies, Wang (2006) report an inverted U-shaped relation between founding family ownership and earning quality. He uses three type measurement of earnings quality, i.e. abnormal accruals, earnings informativeness and conservativeness of earnings. The inflection point for each type of earnings quality measurement is at 33.72%, 28.94%, and 29.36%., respectively. Munir and Saleh (2009) find a negative relationship between family ownership and earnings quality when the percentage of family ownership is low, but as the percentage of family ownership becomes larger, the relationship becomes positive.

Overall, the two competing theories of the effect of family control on financial accounting quality indicate that the net relation between family ownership and earnings quality is an empirical issue, so this study proposes two directional hypotheses. Specifically, if the entrenchment hypothesis is dominant, the larger family control in firms will reduce the firms' financial accounting quality, otherwise, if the alignment hypothesis is dominant, the larger family control in firms will increase the firms' financial accounting quality.

HA: Family control will have an impact to the financial accounting quality.

METHODOLOGY

Sample and Data

Population of this study is all Indonesian listed companies from 2008-2010, except financial industry companies. Some accounting quality constructs are measured using 5 years data (2006-2010) in order to provide a reliable measurement of those construct. Financial industry companies are excluded because of subject to more regulation that may impact on ownership structure. In addition, financial industry companies have different components of financial statements that may influence to the way to measure some earnings quality constructs. The financial industry firms include banking, credit agencies other than banks, securities, insurance, holding and other investment firms. The company's audited financial statements provide the source of information for ownership structure and some earnings quality constructs. These audited financial statements are collected from Indonesian Stock Exchange web site. Market data for some earnings quality constructs are obtain from database of Meta Stock programme. Family ownership information is collected from internet sources. All of this information is manually collected. Sample descriptions are illustrated on table 2.

Research Design

To investigate the impact of concentration of ownership and family control on financial accounting quality mediating by related party transaction, this study employs simple regression model. The model is following.

$$AC_i = \gamma_0 + \gamma_1 FC_i + \delta \quad (1)$$

Where,

AC_{it} = one of the seven attributes of earnings quality for firm i

FC_{it} = family control for firm i

δ = the error term for the model

Table 2
Sample Description

Panel A Selection of Sample

Total number of Indonesian Firms listed in Indonesia Stock Exchange (IDX) per 31 Des 2006	283 firms
Less:	
Delisted firms during 2007-2010	16 firms
Type of Industry changes during 2007-2010	16 firms
Listed in the Development Board	10 firms
Have more than one type outstanding stocks	2 firms
Inaccessible audited financial statement for the year 2006-2010	51 firms
Functional currency other than Rupiah	8 firms
Unavailable share market price data	1 firms
Firms with complete data	179 firms
Selected 60% of the firms with complete data	108 firms
Adding some firms that are under common control to the selected firms	6 firms
Final Sample	**114 firms**

Panel B Sampled firms according to their primary industry (IDX version)

No.	Type of Industry	Population	Sampled Firms	Proportion of Sample
1.	Agriculture	11	6	55%
2.	Mining	10	6	60%
3.	Basic industry and chemical	53	16	32%
4.	Miscellaneous	46	9	20%
5.	Consumer	37	18	49%
6.	Property and Real Estate	35	16	46%
7.	Infrastructure, Utility and Transportation	20	9	45%
8.	Trade, Service and Investment	71	34	48%
	Total firms	283	114	40%

Family Control as an Independent Variable

Family control is measured by the percentage of family ownership in a firm. Following previous studies (Munir and Saleh, 2009; Facio and Lang, 2002; Claessens et al., 2000, La Porta et al., 1999), family shareholders consist of shareholders who are a family, or an individual or a privately owned firm. In addition, family control is measured by the percentage of ownership of family who involve in the board of director or board of commissioner. The second measurement of family control will measure controllership of family not only through ownership but also through management.

Financial Accounting Quality as a Dependent Variable

Financial accounting quality is measured by earnings quality. There are seven constructs of earnings quality, consistent to Francis et al. (2004). Financial accounting quality is measured using multiples measurement in order to get a comprehensive description about the effect of institutional factors on the financial accounting quality. This is consistent to the result of Boonlert-U-Thai et al. (2007) study that shows the impact of institutional characteristics on earnings quality depend on how earnings quality is measured.

Accrual quality

Accrual quality is measured using Dechow and Dichev (2002) model.

$$\frac{TCA_{i,t}}{Assets_{i,t}} = \varphi_{0,i} + \varphi_{1,i}\frac{CFO_{i,t-1}}{Assets_{i,t}} + \varphi_{2,i}\frac{CFO_{i,t}}{Assets_{i,t}} + \varphi_{3,i}\frac{CFO_{i,t+1}}{Assets_{i,t}} + \nu_{i,t} \quad (2)$$

Where,

$TCA_{i,t}$ = total current accruals of firm i in year t
= ($\Delta CA_{i,t}$ - $\Delta CL_{i,t}$ – $\Delta Cash_{i,t}$ + $\Delta STDEBT_{i,t}$)
$Assets_{i,t}$ = total assets firm i in year t
$CFO_{i,t-1}$ = net cash flow from operating activities of firm i in year t-1
$CFO_{i,t}$ = net cash flow from operating activities of firm i in year t
$CFO_{i,t+1}$ = net cash flow from operating activities of firm i in year t+1
$\Delta CA_{i,t}$ = change in current assets of firm i between year t-1and year t
$\Delta CL_{i,t}$ = change in current liabilities of firm i between year t-1 and year t
$\Delta Cash_{i,t}$ = change in cash of firm i between year t-1 and year t
$\Delta STDEBT_{i,t}$ = change in current maturies of long term debt of firm i between year t-1 and year t
For each firm year, equation (6) is estimated using cross sectional by industry for two year time period (2008-2009). For each firm i, these estimations yield two firms-and year-specific residuals,v_{it}. Accrual quality is the standard deviation of firm i estimated residuals. Lower value of *Accrual Quality* corresponds to better accrual quality, so higher earnings quality.

$$AccrualQuality_i = \sigma(\hat{v}_{i,t}) \qquad (3)$$

Persistence

Following previous research (Lev, 1983; Ali and Zarowin, 1992), earnings persistence is measured as the slope coefficient estimate, $\Phi_{1,i}$, from an autoregressive model of order one (AR1) for annual split adjusted earnings per share.

$$X_{i,t} = \Phi_{o,i} + \Phi_{1,i} .X_{i,t-1} + \nu_{i,t} \qquad (4)$$

Where,
$X_{i,t}$ = net income before extraordinary item firm i in year t divided by the weighted average number of outstanding shares during year t
$X_{i,t-1}$ = net income before extraordinary item firm i in year t-1 divided by the weighted average number of outstanding shares during year t-1.
For each firm-year, equation (4) is estimated using maximum likelihood estimation and rolling five-year windows (2006-2010). This procedure yield firm-and year specific estimates of $\Phi_{1,i,}$, which capture the persistence of earnings. Values of $\Phi_{1,i}$ close to 1 imply highly persistent of earnings, while values of $\Phi_{1,i}$, close to 0 imply highly transitory of earnings. Higher earnings persistence implies higher earnings quality.

Predictability

The measure of earnings predictability is also derived from firm and year specific AR1 models. The earnings predictability model is consistent to Lipe (1990). Less value of *predictability* from equation (5) implies more predictable earnings, leading to higher earnings quality.

$$\Pr edictabili\,ty_i = \sqrt{\sigma^2(\hat{v}_i)} \qquad (5)$$

$\hat{v}_i$ = residual from equation (8)

Smoothness

Following Francis et al. (2004), earnings smoothness are measured as follows,

$$Smoothness_{i,t} = \sigma\,(NIBE_{i,t})/\sigma\,(CFO_{i,t}) \qquad (6)$$

Where,
$NIBE_{i,t}$ = net income before extraordinary items for firm i in year t divided by beginning balance of total assets.
$CFO_{i,t}$ = cash flow from operating for firm i in year t divided by beginning balance total assets.
Standard deviation of NIBE and CFO are calculated over rolling five-year windows (2006-2010). Smaller value of *smoothness* indicates more earnings smoothness, which implies higher earnings quality.

Value Relevance

Following Francis and Schipper (1999), Collins et al. (1997), Bushman et al. (2004) and Francis et al. (2004), value relevance of earnings are measured based on the explained variability from the following regression of return on level and change of earnings (*adjusted* R^2).

$RET_{i,t} = \gamma_{o,i} + \gamma_{o,i} EARN_{i,t} + \gamma_{o,i} \Delta EARN_{i,t} + \zeta_{i,t}$ (7)

$RET_{i,t}$ = monthly stock return for firm i for 15 months, from the beginning of year t until 3 months after year t.

$EARN_{i,t}$ = earnings before extraordinary items for firm i in year t scaled by firm market value at the end of year t-1.

$\Delta EARN_{i,t}$ = change in firm i's earnings before extraordinary items in year t and year t-1, scaled by firm market value at the end of year t-1.

Equation (7) is estimated for each firm over rolling five year windows (2006-2010. In order to conform this variable to ordering scheme of other earnings quality constructs, the value relevance is stated as follows.

Value relevance = - adjusted $R^2_{i,t,\ eq(9)}$ (8)

Small values of *value relevance* imply more value relevant of earnings, leading to higher earnings quality.

Timelines

The measure of timeliness is derived from reverse regressions, which use earnings as the dependent variable and returns as the independent variables.

$EARN_{i,t} = \lambda_{o,i} + \lambda_{1,i} NEG_{i,t} + \lambda_{2,i} RET_{i,t} + \lambda_{3,i} NEG_{i,t} . RET_{i,t} + \beta_{i,t}$ (9)

$EARN_{i,t}$ = earnings before extraordinary items for firm i in year t divided by firm market value at the end of year t-1.

$NEG_{i,t}$ = 1, if $RET_{i,t} < 0$, and 0 if otherwise

$RET_{i,t}$ = monthly stok return saham for fiirm i for 15 months, from the beginning of year t until 3 months after year t

Equation (9) is estimated on a firm and year specific basis, using rolling five year windows (2006-2010). Following Ball et al. (2000) and Bushman et al. (2004), the measure of timeliness is based on the explanatory power of equation (9). Similar to Value Relevance, the measurement of timeliness using negative adjusted R^2 as follows.

Timelines = - adjusted $R^2_{i,t,\ eq(11)}$ (12)

Smaller values of *timelines* imply more timely, leading to higher earnings quality.

Conservatism

Following Basu (1997), Pope and Walker (1999), Givoly and Hayn (2000), and Francis et al. (2004), the measure of conservatism is the ratio of the coefficient on bad news to the coefficient on good news.

Conservatism$_i$ = - $(\lambda_{2,i} + \lambda_{3,i})/\ \lambda_{2,i}$ (13)

Smaller values of *conservatism* imply more conservative earnings, leading to higher quality of earnings.

RESULTS

Descriptive Result

Information about the pooled sample distribution of the earnings attributes measure for the full sample is reported on Table 3. The mean of the seven earnings attributes (Accrual Quality, Persistence, Predictability, Smoothness, Value Relevance, Timeliness and Conservatism) are larger than the US companies' data as reported by Francis et al. (2004). It provide evidence that accounting quality of Indonesian companies are lower than US companies, which is consistent to some previous studies that concluded Indonesian accounting quality is relatively low. In term of family control, the mean of family ownership (FC1) in Indonesian companies is 32.47%. This control is done by direct and indirectly control through other firms. This level of ownership is generally assumed that the family can influence significantly the company policy. While, the mean of ownership of family who involve in the company operation (FC2) is 15.10%, which is lower than FC1.

Pearson pair wise correlations among variables are reported in Table 4. Only three correlations are reported as a positive significant correlation, i.e. between Accrual Quality and Value Relevance, Predictability and Conservatism, Value Relevance and Timeliness. Various correlations among seven earnings attributes show that each earning attribute measure different aspect. No significant correlations, except one, are showed between all seven earnings attributes to the Family Control (FC1 and FC2). Persistence is correlated positively to the ownership of family who involve in company operation at the 10% level of significance. It means the higher family control on a company will decrease the persistence of the company's earnings (because larger amount of earnings persistence measurement means lower the persistence of earnings). Both measurement of Family Control have positive significant correlations, it shows that the FC1 and FC2 measure the same construct, i.e. Family Control.

Table 3
Statistics Descriptive of All Variables

Variables	Mean (Median)	Standard Deviation
Accrual Quality (AQ)	0.1470 (0.0808)	0.2240
Persistence (Pst)	-0.2644 (-0.2790)	0.4891
Predictability (Pdt)	154.9167 (44.0618)	423.8297
Smoothness (Smt)	1.0149 (0.5956)	1.9309
Value Relevance (VR)	-0.2158 (-0.2790)	0.5638
Timelines (Tml)	-0.2085 (-0.5420)	0.9146
Conservatism (Cns)	151.6008 (-0.5209)	1.1508
Family Control-1(FC1)	0.3247 (0.2696)	0.2704
Family Control-2 (FC2)	0.1510 (0.0000)	0.2489

Table 4
Correlations between Variables[1]

	AQ	Pst	Pdt	Smt	VR	Tml	Cns	FC1	FC2
AQ	1	0.092 (0.369)	-0.046 (0.654)	-0.088 (0.389)	0.256 (0.011**)	0.146 (0.152)	0.025 (0.812)	0.032 (0.754)	-0.161 (0.112)
Pst		1	-0.009 (0.924)	0.154 (0.103)	0.096 (0.310)	0.149 (0.114)	0.165 (0.088)	0.035 (0.715)	0.176 (0.061*)
Pdt			1	0.056 (0.552)	0.113 (0.229)	-0.066 (0.486)	0.348 (0.000***)	0.099 (0.293)	-0.069 (0.463)
Smt				1	-0.121 (0.199)	-0.029 (0.759)	-0.024 (0.808)	-0.066 (0.484)	-0.088 (0.352)
VR					1	0.462 (0.000***)	0.019 (0.849)	-0.044 (0.642)	0.023 (0.806)
Tml						1	-0.051 (0.598)	0.048 (0.616)	0.096 (0.312)
Cns							1	0.119 (0.219)	0.113 (0.244)
FC1								1	0.580 (0.000***)
FC2									1

[1] = Pearson Correlation
*** = Significant at the 1% level
** = Significant at the 5% level
* = Significant at the 10% level

Simple Linier Regression

The simple linier regression of each earnings attribute on the Family Control is described on Table 5. It shows that there is no significant association between them, except persistence of earnings on FC2 at the 10% level. It suggests only persistence of earnings is sensitive to the family control, other earnings quality attributes are not. This significant positive association is consistent to the correlation result on Table 4. It provides evidence to some extent that the family control who involve in the operation management will bring more entrenchment effect than alignment effect to the quality of company accounting information, especially to the persistence of earnings. It suggests that the controlling family owner will intervene company accounting policy in order to manage earnings. Therefore it will reduce the persistence of earnings from one period to the other period.

Table 5
Simple Linier Regression Earnings Attributes on Family Control

	AQ	Pst	Pdt	Smt	VR	Tml	Cns
FC1:							
R^2	0.001	0.001	0.010	0.004	0.002	0.002	0.014
Beta	0.032	0.035	0.099	-0.066	-0.044	0.048	0.119
Sig. F & t	0.754	0.715	0.293	0.484	0.642	0.616	0.219
FC2:							
R^2	0.026	0.031	0.005	0.008	0.001	0.000	0.013
Beta	-0.161	0.176	-0.069	-0.088	0.023	0.096	0.113
Sig. F & t	0.112	0.061*	0.463	0.352	0.806	0.312	0.244

* = significant at the 10% level

Quadratic Regression

Based on some previous studies, there is a possibility of non-linearity association between earnings quality attributes and Family Control. From curve estimation test in SPSS program, only Persistence has possibility of quadratic function on Family Control. Persistence has quadratic function on family control as shown on Table 6. Whether family control measured by ownership of the family or by ownership of family who involve in the companies' operations, both of them show significant function (F test). The coefficient of quadratic family control is only significant for family ownership, although the sign is consistent between quadratic FC1 and quadratic FC2. The family control and earnings persistence have an inverted U curve association. The bends point (the slope of the curve changes sign) is on 49.83% for FC1 and 67.57% for FC2. It means that if the family ownerships are below 49.83%, more family control will reduce earnings persistence of the companies, consistent to entrenchment effect hypothesis. On the other hand, if the family ownerships are above 49.83%, more family control will increase earnings persistence, consistent to alignment effect hypothesis. The bends point is higher for family owners who involve in companies' operations. It needs the ownership up to 67.57%, to change the effect of family control on earnings persistence. Findings of this study contradict to the previous studies that found non-linier association between accounting quality and family control. Wang (2006) and Munir and Saleh (2009) report there are alignment effect when family control level is low, and entrenchment effect when family control is high. Different institutional environment across countries influence the relation between family control and accounting quality. Wang (2006) uses USA companies' data, while Munir and Saleh (2009) use Malaysian companies' data.

Table 6
Quadratic Regression of Earnings Persistence on Family Control

	Pst		Pst
R^2	0.043	R^2	0.053
Sig.F	0.087*	Sig.F	0.049**
FC1 (sig.t)	0.586 (0.030**)	FC2 (sig.t)	0.573 (0.032**)
$FC1^2$ (sig.t)	-0.588 (0.030**)	$FC2^2$ (sig.t)	-0.424 (0.111)

** = Siginificant at the 5% level
* = Significant at the 10% level

CONCLUSION, LIMITATION AND RECOMMENDATION FOR FUTURE RESEARCH

Using Indonesian companies data from 2008-2010, this study finds that only persistence of earnings is affected by the family control in the company, other earnings quality attributes are not. The association between earnings persistence and family control is quadratic. When the level of family control is low, the family control reduces the persistence of company earnings. On the other hand, when the level of family control is high, the family control increases the persistence of company earnings. The bends point is at 49.83%. The point is higher when the family owner is also the member of board directors or the board of commissioner that can control the company operation functionally. i.e.67.57%.

This result provides more support that the institutional environment, especially the ownership structure of the company as preparer of financial statement, influence the accounting quality. Qualified financial accounting standards are important in order to improve the quality of accounting information, but institutional environment is also important. IFRS is not the only medicine to cure the sickness. The policy body maker should regulate corporate governance practice of the companies. This study also supports the prevailing second type agency theory. Besides, it suggests that the policy of accounting standards setters to separate the operation and non-operation part in the income statement is still relevance to decision maker. It facilitates the external user to assess the persistence and non-persistence part of earnings.

Limitation of this study is the result of this study depends on the reliability of public acesable data. This limitation also occurs to other studies that use secondary data. Future research can improve this study by adding some control variables in order to reduce the possibility of omitted variables in the function. In addition, the future research can examine the possibility of related party transactions as mediating variable the association between family control and accounting quality.

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Guide Book:
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DEAN'S MESSAGE

Dear Participants,
On behalf of the Faculty of Economics and Business - University of Brawijaya, I have the great pleasure to welcome you to the International Conference on "Political Economy of Trade Liberalization in Developing East Asia: Sustainability, Governance, and the Role of Small Business" in commemoration of the 50th Anniversary of the Faculty of Economics and Business – University of Brawijaya (FEB-UB). Thank you for honouring our invitation with your attendance. I really hope that all the distinguished guests and participants will enjoy and benefit from this conference and the networking activities. I wish you also have a memorable stay in Malang and University of Brawijaya.

As one of the top Faculties of Economics and Business in Indonesia, FEB-UB, since its establishment, actually has set the agenda of playing a major role in promoting research and education on Economics, Management, and Accounting. This conference fits with this long-established orientation of the FEB-UB in order to receive more recognition as the world class faculty on research and education. Therefore, it is expected that this conference will actively promote a discussion which is expected to contribute to the theoretical and empirical literature and policy dialogue particularly on the East Asian integration and cooperation.

As the Dean of Faculty of Economics and Business – University of Brawijaya, I would like to express my gratitude to the sponsors for their support in preparations of this conference. I would like also thank to the Organizing Commitee whose efforts have made this event a reality. I hope that this conference will accomplish all its aims and become a great sucess.

Best Wishes,
Gugus Irianto, SE. MSA, Ak, Ph.D
Dean Faculty of Economics and Business
University of Brawijaya

CHAIRMAN'S MESSAGE

Dear Participants,
It is my great pleasure to welcome you to the International Conference on "Political Economy of Trade Liberalization in Developing East Asia: Sustainability, Governance, and the Role of Small Business" in commemoration of the 50th Anniversary of the Faculty of Economics and Business – University of Brawijaya. We are delighted that you are able to join us in Malang – Indonesia, a city that is popular for its cool air and clean cities and also popular as tourist destination and educational centre.

As we know, East Asia is one of the most diversified regions in the world where neighboring countries can be uniquely different in terms of political, economic or cultural aspects. Specifically, this conference discusses the recent trade policy performances of East Asian countries and discusses the role of the East Asia which could play in the promotion of global trade liberalization. The other issue to be analyzed in the conference is what reforms and innovations needed by the small business to the current institutional architecture in the region to survive and sustain in this economic integration era.

I would like to thank all those who have aided in this conference – particularly to our sponsors: PT. Semen Gresik, Bank Indonesia, and PT. Pupuk Kaltim for their full support in preparations of this conference.

I look forward in which researchers, academician, scientists from across Asian countries come together to advance knowledge and friendship. Please enjoy our conference, our city, and our university. We hope you have a truly enjoyable as well as intellectualy stimulating time with us.

Sincerely,
Devanto S. Pratomo, Ph.D
Chairman ICFEB 2011
Faculty of Economics and Business
University of Brawijaya.

International Conference:
"Political Economy of Trade Liberalization in Developing East Asia"

Committee

Steering Committee

Chairman : Gugus Irianto
Team Member : Khusnul Ashar
Didied P. Affandy
Nanang Suryadi
Aulia Fuad Rahman

Organizing Committee

Chairman : Devanto Shasta Pratomo
Secretary : Yuki Firmanto
Treasurer : Catrine Ana P
Kristin Rosalina
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Ida Yulianti
Rio Gatra Raharja
Dara Puspitaningrum
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Ceremonial Division : Putu Mahardika (Co)
Bayu Ilham Pradana
Titis Setiawardhani
Gandhi Prasetyo
Public Relation Division: Setyo Tri Wahyudi (Co)
Risca Fitri Ayuni
Raditya
Lutfi Syamsiar
Sponsorship Division : Lutfi Haris (Co)
Ayu Fury Puspita
Cahyuska Desmutya Herfika
Malika Ramadhani
General Affair Division : Yenni Kornitasari (Co)
Ubaidillah
Yogi Hermawan

In Commemoration of the 50th Anniversary of the Faculty of Economics and Business-University of Brawijaya

General Schedule

Day I, Thursday 24 November 2011

Time	Activity
08:00-09:00	Registration
09:00-09:45	Opening Ceremony
09:45-11:30	Plenary Session I • Iwan Jaya Azis,Prof (Head OREI-ADB/Cornell University) *Political Economy of Trade Liberalization in East Asia* • Wijoyo Santoso,Dr (Bank Indonesia) *Effectiveness of Monetary Policy in the Financial Liberalization Era – Indonesia Experience*
11:30-13:00	Luncheon
13:00-14:45	Parallel Session I
14:45-15:15	Coffee Break
15:15-17:00	Parallel Session II

Day II, Friday 25 November 2011

Time	Activity
08:00-08:15	Registration
08:15-09:50	Parallel Session III
09:50-10:00	Coffee Break
10:00-11:35	Parallel Session IV
11:35-13:00	Luncheon
13:00-14:35	Parallel Session V
14:30-15:00	Coffee Break
15:00-16:35	Plenary Session II • Moha Asri A, Prof (IIUM, Malaysia) *Dynamics of Small Business in East Asia*
16:35-17:00	Closing Remark & Best Paper Awards
midnight	Optional: Bromo Tour

International Conference:
"Political Economy of Trade Liberalization in Developing East Asia"

Detailed Schedule

Parallel Session I

Regional Cooperation (RC) :

Chair/Moderator : Mohamed Aslam (Universiti Malaya)

Room : Inspiring Room

No	Code	Title	Team Leader
1.	RC-01	Trade Liberalization and Its Impact on the Competition in Two Sided Markets Industry: A Comparison Study of the Impact of Foreign Hypermarket on Local Hypermarket in Indonesia	Amirullah Setya Hardi
2.	RC-02	Telecommunications Technological Development Policy in Post-1998 Indonesia: Domestic Constellation and the Influence of Internationalization	Achmad Supardi
3.	RC-03	Trends in the Direction of Trade of Indian Agricultural Commodities Among SAARC Countries	Srinivasa Gowda
4.	RC-04	Navigating the Dangerous Phase: Recent Global Economy Development and Policy Implications for Indonesia	Moch. Doddy Ariefianto
5.	RC-05	The Influence Of International Trade, Market Distribution And Competitiveness On The Growth Of Indonesia's Coffee Export Value (Period On 1990 - 2010)	Eka K. Adiwilaga

Human Resource Development (HR) :

Chair/Moderator : Trias Setiawati (University of Islam Indonesia)

Room : Empowering Room

No	Code	Title	Team Leader
1.	HR-01	The Existence of Opinion Leaderships in General Elections: Relationships	Dr.Zulganef

In Commemoration of the 50th Anniversary of the Faculty of Economics and Business-University of Brawijaya

No	Code	Title	Team Leader
		between Attitude toward Political Attributes, Satisfaction, and Opinion Leaderships in Indonesia	
2.	HR-02	The Role of Situational Leadership and Organizational Communication on Employee's Performance at PT Primabox Adiperkasa Pandaan.	Achmad Sudiro, Prof
3.	HR-03	The Effect Of Family Control On The Accounting Quality: Evidence From Indonesian Companies	Yie Ke Feliana
4.	HR-04	Living arrangement of the Elderly: A comparison between Malaysia and Indonesia	Saidatulakmal Mohd
5.	HR-05	Role of ITB in Developing Knowledge HUB in Bandung, West Java , Indonesia	Jann Hidayat Tjakraatmadja /Lenny Martini

Finance and Banking Structures (FB) :

Chair/Moderator : Kurniawan Saefullah (Padjadjaran University)

Room : Enlightening Room

No	Code	Title	Team Leader
1.	FB-01	Micro Finance not a Panacea but..: The Economic and Social Development of Post Conflict, Post Tsunami Aceh Through Innovative Grass Root Micro Finance	Fakhrurrazi
2.	FB-02	The Effect of Performance Measurement System on the Relationship of Participative Budgeting and Budgetary Slack: An Empirical Evidence from Manufacturing Firms in Padang, West Sumatra	Eka Fauzihardani, SE,Ak,Msi
3.	FB-03	Indonesian Higher Education	Irene

		Contribution Toward The Growth of Islamic Financial Industries : An Early Study	Syafridda
4.	FB-04	The Effect of Economic and Non Economic Motives on Tax Compliance	Herlina Helmy, SE,Akt, M.S.Ak
5.	FB-05	Financial Development and Economic Growth Nexus: A Study of The Role of Stock Markets in Selected African Countries	Setyo Tri W

Parallel Session II

Small Business (SB) :

Chair/Moderator : Hariandy Hasbi (Bunda Mulia University)

Room : Inspiring Room

No	Code	Title	Team Leader
1.	SB-01	Re-inventing Agriculture for Malaysia's Vulnerable and Aged Smallholder Farmers: The new challenge for the nation's agricultural sector under globalization	Jamalludin Sulaiman
2.	SB-02	Analysis of Gender Entrepreneurship in SME in Kudus Region Central Java Indonesia	Rustina Untari
3.	SB-03	THE CONSTRAINTS OF RUBBER SMALLHOLDER PRODUCTIVITY IN BANYUASIN REGENCY, SOUTH SUMATERA PROVINCE	Muhammad Yusuf
4.	SB-04	Competitive Advantage of Products in Food Sector Industry Produced By Small Medium Enterprises (SMEs) Compare to The Big Company in West Sumatra	Prof.Dr.Yasri, MS
5.	SB-05	The Role of Business Development Service in Development Small Medium	K. Dianta Sebayang

	Enterprise (SME) Center in Order To Build A Regional Economic Partnership

Finance and Banking Structures (FB) :
Chair/Moderator : Moch. Doddy Ariefianto (Ma Chung University)
Room : Empowering Room

No	Code	Title	Team Leader
1.	FB-06	Atributes of Market Microstructure: A literature Review	Ghazali Syamni
2.	FB-07	Business Freedom And Stock Prices In Five Asean Countries	David Kaluge
3.	FB-08	Financial And Non Financial Factors On Going-Concern Opinion	Junaidi
4.	FB-09	Provident Fund for the Rural Informal Sector: A Calibration Analysis.	Saidatulakmal M.
5.	FB-10	Stock Market And Real Interest Rate Of Asean Countries;Are They Close?	Suhal Kusairi

Governance & Public Sector (GP) :
Chair/Moderator : M. Devaraj (University of Mysore)
Room : Enlightening Room

No	Code	Title	Team Leader
1.	GP-01	Corruption: Is it Good or Bad for Economic Growth?	Yanuar Dananjaya, BSc, MM
2.	GP-02	Analyzing the effect of good governance on economic growth	E. Mousakhani
3.	GP-03	Human Mentoring Management as Strategy in Strengthening the Government Bureucracy for Actualizing Sound Governance in Indonesia	Adi Gunawan Saputra
4.	GP-04	Analysis Of Direct And Indirect Pass	Ratih

No	Code	Title	Team Leader
		Through Of Line In Exchange On Transmission Of Monetary Policy To Inflation Rate And Gross Domestic Product In Indonesia	Kusumastuti
5.	GP-05	An Effect of the Lowest Bidding System in Urban Construction: The Case of Seoul	Choong-hoon Park

Parallel Session III
Small Business (SB) :
Chair/Moderator : Prof. Jamal Othman (Universiti Kebangsaan Malaysia)
Room : Inspiring Room

No	Code	Title	Team Leader
1.	SB-06	Role of MSMEs In Globalization: The Story from Indonesia	Tulus T.H Tambunan
2.	SB-07	Empowering SME's Through ASEAN Economic Community to Reduce Development Gap in ASEAN	Prasidya Ilvan Yahdi
3.	SB-08	A Study on the Role of Small Business in Indian Economy in the Post Liberalisation Period (A Special Reference to Employment Generation and Export Promotion)	Dr. Ayekpam Ibemcha Chanu
4.	SB-09	SWOT Analysis Micro Small Medium Enterprise (MSME) Geulis Craft Umbrella to Success in Local Economic Development Resources District Tasikmalaya	K. Dianta Sebayang
5.	SB-10	Islamic Social Entrepreneurship as an Instrument to Empowering Muslim Small and Medium Entrepreneurs: a Case of Indonesia	Arif Hoetoro

Regional Cooperation (RC) :

Chair/Moderator : Dr. Suhal Kusairi (Universiti Malaysia Terengganu)

Room : Empowering Room

No	Code	Title	Team Leader
1.	RC-06	Indian Agricultural Exports in the Outcome of Economic Liberalisation : An Asian Perspective	M. Devaraj
2.	RC-07	Economic Geography and Ecological Analysis of Deindustrialization: The Case of Textile and Its Products Industry in Surakarta and Karanganyar	Bambang Suhardi
3.	RC-08	The Impacts of Trade Facilitation in Greater Mekong Subregion on SME Exporters of the Lao PDR	Dr. Chin Ming Lin
4.	RC-09	How the European Crisis Affects Indonesian Economy?	Anika Widiana
5.	RC-10	Halal Development and Malaysian Export to Western Asian Countries	Nik Hadiyan

Governance & Public Sector (GP)

Chair/Moderator : Dr. Setyo Tri W (University of Brawijaya)

Room : Enlightening Room

No	Code	Title	Team Leader
1.	GP-06	An Explorative Survey in the Implementation of Good Corporate Governance on Small Business Entity	Fazli Syam BZ
2.	GP-07	The Influence Mentoring Status and Function to Auditor-Supervisor Relationship with Organizational Justice and Auditor Feeling as Intervening (Empirical Study at Public	Rahma Wati, Prof

No	Code	Title	Team Leader
		Accounting Firm in Central Java and D.I.Y)	
3.	GP-08	Dynamic Relationship Between Public Investment and Income in South Sumatera Province, Indonesia	Fachrizal Bachri
4.	GP-09	Impact of US Aid on Capacity Development of South Korea	Jinkyung Kim
5.	GP-10	Herding Behavior Evidence on Indonesian Government Bonds using Oehler Measure	Ruben Juliarto

Parallel Session IV

Economic Integration & Asian Regionalism (EI) :

Chair/Moderator : Prasidya Ilvan Yahdi (University of Indonesia)

Room : Inspiring Room

No	Code	Title	Team Leader
1.	EI-01	Understanding The Economic Impact of ASEAN Free Political and Economic Market System	Riandy Laksono
2.	EI-02	The Economic Impact of Korea-India CEPA Using the Elasticity Analysis	Hye Jin Park
3.	EI-03	Business Freedom and Stock Prices in Five Asean Countries	Dwi Wulandari
4.	EI-04	Trade Integration and Business Cycle Syncronization: Empirical Study of ASEAN-5, China, Japan, Korea and India	Etty Puji Lestari
5.	EI-05	ASEAN-China FTA. The Impact on Indonesia Manufacturing Industry	Mohamed Aslam

Human Resource Development (HR) :

Chair/Moderator : Jinkyung Kim (Ewha Womans University)

Room : Empowering Room

No	Code	Title	Team Leader
1.	HR-06	The Process Configuration towards a Learning Organization, Case Study at the Faculty of Economics of the University of Islam Indonesia in Yogyakarta.	Trias Setiawati
2.	HR-07	Understanding Indonesian Values: A Preliminary Research to Identify Indonesian Culture	Sabrina O Sihombing
3.	HR-08	Exploring the Relationship among Brand Experience, Brand Attitude, and Customer Satisfaction: A Case Study of Facebook.com in Indonesia.	Ida Yulianti
4.	HR-09	Minimum Wages and Hours Worked in Indonesia	Devanto Pratomo

Small Business (SB) :

Chair/Moderator : Roos K Andadari (Christian Satya Wacana University)

Room : Enlightening Room

No	Code	Title	Team Leader
1.	SB-11	The Role Government Websites for Promoting the Growth and Development of SMEs: The Potray of Indonesian Local Government.	Riesanti Edie Wijaya
2.	SB-12	Small Scale Industry in Globalization Era: Opportunities or Threats? (A Case Study in Indonesia)	Umar Burhan, Prof
3.	SB-13	Key Success Factors of Franchise Business (Study case of Franchise	Andarwati

No	Code	Title	Team Leader
		Business in Malang City, Indonesia)	
4.	SB-14	The Role of Business Development Service in Development Small Medium Enterprise (SME) Center in Order To Build A Regional Economic Partnership	K. Dianta Sebayang
5.	SB-15	Expending Market & Competing On Kreteks: The Case of Philp Morris Inc. in Indonesia Cigarette Industry	Putu Mahardika

Parallel Session V

Sustainable Growth & Development (SG) :

Chair/Moderator : Srinivasa Gowda (University of Mysore)

Room : Inspiring Room

No	Code	Title	Team Leader
1.	SG-01	The influence of ecological knowledge and product attributes in forming attitude and intention to buy green product	Dr.Budhi Haryanto
2.	SG-02	Technical Efficiency Of Rice Production Innorth West Selangor, Malaysia: The Frontier Analysis	Suhal Kusairi
3.	SG-03	The Influence of Encouragement of Environmental Management, Proactive Environmental Management, and Management Control Systems on Behavior of Carbon Emission Efficiency.	Muhammad Ja'far S
4.	SG-04	The Optimalization of a Balance Cassava Distribution in Order to Support Food Security in East Java	Siswanto
5.	SG-05	Trade and Environmental Linkages:	Jamal Othman,

No	Code	Title	Team Leader
		Case Of Oil Palm In Indonesia	Prof

Small Business (SB) :

Chair/Moderator : Putu Mahardika Adi S. (University of Brawijaya)

Room : Empowering Room

No	Code	Title	Team Leader
1.	SB-16	The Perceptions of Restaurants Entrepreneur toward Entrepreneurial Competencies, Entrepreneurial Orientation, and Business Success in Pekanbaru City Restaurant	Julina, SE,Msi
2.	SB-17	Increasing Competitiveness Of Marketing With Improve Growth Of Batik	Izzur Rozabi
3.	SB-18	Indonesian SMEs in the era of the ASEAN Economic Community: Who will be the winner or loser?	Roos K Andadari
4.	SB-19	Holding Rural-Area-Owned Enterprises to Improve Indonesian Competitiveness' Capability in Facing Global Crisis	Agus Suman
5.	SB-20	Social Capital in Barter Transaction (A Study on Pasar Blante, Kawangkoan District, Minahasa Regency, North Sulawesi)	Rahel W. Kimbal

Finance and Banking Structures (FB) :

Chair/Moderator : Ida Yulianti (University of Brawijaya)

Room : Enlightening Room

No	Code	Title	Team Leader
1.	FB-11	Elaborating Financial Fraud Incidents in Business Sectors: Evidence from	Ainur Rofiq

No	Code	Title	Team Leader
		South East Asia	
2.	FB-12	Integrating Microfinance with Local Culture: Building an Inclusive Sustainable Microfinance in Indonesia	Kurniawan Saefullah
3.	FB-13	The Role of Regional Development Bank in Order to Increase The Regional Economy	Hariandy Hasbi
4.	FB-14	International Stock Market Linkages: Evidence from Africa	Setyo Tri W
5.	FB-15	Comparing the Sustainability of Conventional and Islamic Microfinance Models in Indonesia	Ascarya

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INTERNATIONAL CONFERENCE

certificate

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SEMEN GRESIK

This is to certify that:

Yie Ke Feliana, S.E., M.Com., Ak., CPA, CFP

has attended

International Conference on

"Political Economy of Trade Liberalization in East Asia:

Sustainability, Governance, and the Role of Small Business"

as a *Presenter*

24th-25th November 2011

Faculty of Economics and Business

University of Brawijaya

Gugus Irianto, Ph.D
Dean

Devanto S. Pratomo, Ph.D
Chairman

Member of: AACSB ABEST21

Partner: MURRAY USM ITC THE HAGUE UNIVERSITY OF APPLIED SCIENCES msu management & science university