

CHAPTER 1

INTRODUCTION

1.1 **Research background**

The developing level of Business Company in Jakarta is an interesting subject for us to be concerned with, because of this condition there are also an increasing level of potential benefits for an accounting firm to get hired by these developing company. The competition become more and more fierce as the market barrier diminish and the customers demand are increasing, so in order to compete with any other existing accounting firm, the firms itself have to prove the quality of their service and the end result of its work.

At the very beginning, Accountancy is a very important thing in any company because it is the one that manage all the cash in and out of the company. In order to survive, a company must have a precise result of the company's cash flow or else these companies cannot manage its efficiency in the operational or the transaction cost and could end up in bankruptcy. Even though a company realizes this, a fraud and other errors that can mess up the final cash flows report cannot be avoided even inside the company itself.

Nowadays the structure of the organizational theory already evolved, which is the transaction cost are already taking an imporant part in its system (Williamson, 1975, 1985) this is what happens in the world for the last 2 decades. Thanks to these new organizational theory there are some of an organizational questions that can be solved by using this new theory which is

vertical integration of production (Williamson, 1971; Klein, Crawford, and Alchian, 1978; Anderson 1982; Monteverde and Teece, 1982; Walker and Weber, 1984), governance design and flexibility (Gietzmann, 1996), strategic buyer-supplier relationships (Harrigan, 1983; Hill, 1990; Parkhe, 1993), and consumer relations (Grønhaug and Gilly, 1991). Hence this new theory is proven useful in the new coming era of organizational activities, further explanation about the transactional cost will be explained later on.

The way for the transaction cost theory to occur also require certain condition, which is the same understanding between parties as the form of the current deal. The reason why this theory can work in this era is because they can provide the efficient way on managing the inside or out transaction of the company itself (Coase, 1937; Williamson, 1975, 1979, 1985). This theory focused on transaction and exchange as the main idea of network relationship between parties. But in other side of statement, there are some parties that believes that relational contract theory (Macneil, 1980) and the interaction model (Håkansson 1987; Håkansson and Snehota, 1995) are very important because its putting more concern toward constructing the trust relation between buyer and seller. Trust interaction has proven that it can protect the accounting firms from any other competitors that seeks the firms clients and these relationship between parties (buyer and seller) are also be able to create a long-term network or business relationship for the up coming transaction. Though there is a difference of opinion in what is the new theory trully focused on, the trust factor can actually be combined with the Transaction cost way of work itself. Though according to Williamson, transaction cost

theory does not acquire the same model of theoretical operation as trust relationship (1981, 1993), but because of the previous study stated and proven that trust can be a useful tool to mitigate the doubt and cautiousness between parties to do a deal, trust concern are one part that any firms would approved to be an important part of the transaction itself.

1.1.1 Accounting landscape

As stated above, because there are so many growing business company in Jakarta, the value of an accounting firm in Jakarta also elevated, here are some example of the best accounting firms that exist in Jakarta nowadays according to a website research in a focused research of an accounting firms in Jakarta :

1. **Ernst & Young** : This company is actually a worldwide company that already grew miraculously for the last three decades, now this company also open a branch in Jakarta. The company itself also serve their tittle as one of “The Big 4” and there are several service that they offer to the customer which is advisory service, assurance service, transaction advisory service, auditing service. Based from the statement of their profile facts, because this company already expanded worldwide there are thousands of company’s that already hired their service. As for only Jakarta region, these are some of the example of the customers that are using the service from Ernst and Young, the Femina group, Financial club Jakarta, PT Asuransi Adisarana Wanaartha, MD entertainment and thousands more. Moreover, this company is not only

serving another business's company as their accountant, they also run a certain kind of event such as Entrepreneur of The Year Awards 2012.

There are several factors and qualities of these big firms, but they focused on these 3 key elements of workforce that they implemented in their employees :

- Inclusiveness : which is a work force that follow a democracy style that heard and value the voice of their employee in order to increase their quality.
- Development : which is coaching their employees and supervising them with the knowledge that the previous employees or senior had experienced.
- Engagement : which is encouraging their people for their work and the other colleagues to be comfortable with the firm itself.

By doing these ways of work, it is proven that this company is one of the most developed accounting firm in Jakarta and even worldwide because of the quality service that they provide for the customer.

2. Deloitte Touche Tohmatsu: This company was originally founded by MR.William Deloitte who was the grandson of count De Loitte. He opened his first office in the United States in 1893. Nowadays Deloitte has a branch in Indonesia, this company established in year 1990. But the Deloitte branch in Indonesia is actually created from the merger of three other firms which is Hans Tuanakotta & Mustofa (HTM) that manage the audit practice and Capelle Surjadinata & Setiawan (CSS) as the one in charge of tax and management consulting services, and Osman Bing Satrio & Rekan as the part

of the firm that in charge of assisting the company's client, on having a professionals in their company this part focuses more on helping the client to develop.

This accounting firm offer a service as advisory and assurance, risk consultant, financial advisory, and tax management. Here are some list of the companies that hired deloitte to do their auditing :

1. Astra Otoparts tbk PT
2. Bimantara Citra tbk PT
3. Mitra Adiperkasa tbk

There are several factors that increases the chance of Deloitte company to get hired by the customer, they provide a professional assistance to the client and doing it successfully and efficiently with the main focus is on the customers need, they grow to be a very trustable accounting company all over the world and also in our local location. Their main value of the network member of the firms are integrity, outstanding value to markets and clients, commitment to each other, and strenght from cultural diversity.

3. Price Water House Coopers (PWC): PWC is a global network of a professional service that has more than 169.000 employees in 158 countries all over the world. This accounting company has exist in Indonesia for more than 40 years of service, nowadays PWC has several clients in many kind of industries and profession, they even serve the most private and public institutions in any region of the country.

By bearing the title as one of the BIG 4 this company has served many multimillion dollar Indonesian companies for the past 40 years, here are the list of their clients :

1. Adira Dinamika Multi Finance PT
2. Aneka Tambang Tbk PT
3. Astra Agro Lestari Tbk PT

They serve the customer with several of services which is advisory, audit and assurance, tax, capital market services, accounting advisory services, IFRS accounting advisory services and Korean business desk. The main quality of the company is that they have a very good move on solving their clients business issues by mixing global mindset and their own professional employees, they used their business experience into their service for the success of their clients and keep on improving their employees in order to give their clients with even better service.

4. **KPMG:** This company in Indonesia is born from the merger of three companies which is Siddharta and Widjaja public accountants, PT KPMG Hadibroto, PT KPMG Siddharta advisory and together these three companies has joined and can be called nowadays as KPMG Indonesia. This company consists of registered accounting firm of Siddharta and Widjaja, it was founded in 1957 by no other than Drs. Basuki T. Siddharta. In 1986 KPMG Siddharta advisory had been born and being the one that handles about the more expert advisory and the international business community, and lastly these company also has their own tax division that established in 2002 with a separate entity and work plan known as KPMG Hadibroto.

These company serve some service which is audit, tax, and advisory.

Here are some example of client that hire them for their service :

1. PT Bank Central Asia Tbk
2. PT Bank Permata Tbk
3. PT Gudang Garam Tbk

Their way of working are no different with the international branch and with that qualified working qualities they climb their way through in Indonesia, with their leader undoubtly quality level of professionalism their flow of working are by always refining their work strategy and professionalism as their basis of working that implemented to their employees by the leaders, no wonder these company can count as one of the BIG 4.

1.1.2 Competition

As we can see from the example of the most growing accounting companies in Jakarta that are listed above, there are also a lot of certified public accountants or other accounting companies that merge to the surface of this business field, some of them can survive competing with the bigger one (above) but some are not as qualified as the others so the chance of getting hired are also not as big as the BIG 4. Here are some example of the public company that exist in Jakarta :

1. **BDO Tanubrata** : This accounting company are also one of the biggest contender in the accounting company league in Jakarta. It was

founded by Mr. Richard B. Tanubrata on 6 December 1979 and has been serving an international business client that doing their business in Indonesia since 1992. Just like Ernst and Young, this company is also a global company but also served as an expertise in the local company matters. Based from the website research, this company also one of the senior accounting company that exist in Indonesia by anymeans one of the oldest compare to the other accounting company that serve their client in Indonesia.

This company provides the customer with some of their services which are assurance and auditing, finance and management consulting, tax advisory and corporate finance. This company already given their service to many company in Jakarta for example action coach company and webpasific company. Not just that, this company also does their service as an organizer of some certain event such as Bandung culture group in 2005 just like what Ernst and Young did.

One of the quality that BDO company posses are their belief, that can be describe from their belief by building a responsive and responsibility of giving the service to the clients can develop both of the parties growth rate. This company also supported by their own professional personel. not just that their aim are also trustable and convinience for their customer, which is they not focus on their own benefit by only determind to increase the sales but putting more concern on assisting their client in order to get an optimal result of the business.

Their way of working are simplified by the word '3CS' which are community, commitment, and communication. They believe that by doing this kind of business relationship with their customer they can build a better chance of mutualism success between both parties.

2. **Mazars** : This company is also in the same level of the previous accounting company that are already mentioned above. This company was established in 1991 and also one of a global accounting company that has a branch in Jakarta and Bali, by having 500 skilled employee that are experts in the cultural diversity in Indonesia they climb their fame and fortune to be one of the top accounting company in Indonesia and succesfully won the Internet Architecture Board (IAB) award 2012 in March 13.

They provide almost the same kinds of services just like the previous companies that are mentioned before, which is auditing, outsourcing, tax, legal and advisory services. The big advantage point that gives them the opportunity as one of the most developing accounting company in Jakarta is because of this company is the one that manage almost all companies that are controlled under the Bakrie group which means they got hired by the Bakrie group often.

The factors that resemble their strong points are that they value a long term relationship and also value the personal relationships between them and the customer. Not just that, this company also have good connections with

any other international companies, so they can help their customer that would like to expand their business internationally or to assist their customers and provide them with what they need by using their wide connection of international partnership that can fit best with the customers demand.

3. Ghazali, Sahat and Partners: Refer to the research of this public company, this company is also one of the growing accounting firm in Jakarta. There is still a chance of this company to be hired by the customer/buyer, because they have a certified website that can build the trust of their customers and based from the website research that the author has done, they provide an audit service, management consulting, tax service, cashflow processing, and development of human resources management.

-Here are the list of a company that had been using their services:

- PT Telekomunikasi Indonesia Tbk
- PT Telekomunikasi Selular
- PT Elnusa
- PT Surveyor Indonesia
- PT Surveyor Carbon Consulting Indonesia
- PT BCI Asia
- Elnusa Bangkanai Energy, Ltd
- PT Prasada Samya Mukti
- PT Wings Global Logistics
- Partnership for Governance Reform in Indonesia (PGRI)

-The reasonable factors that encourage a customer to hire them are : they have a commitment upon handling their client which is developing the relationship between them and hiring companies and also by doing their work efficiently and fast. There are also other qualities of these accounting company which is they implement a way of encouraging their staff to always improve their performance, integrity, awareness, and profesionalism.

4.Kantor Akuntan Publik (KAP) Drs.Tanzil & Co : In the matter of qualities, reputation history, and the information served for any potential customer. This company is the one that has lack of information compare to the other accounting firms that are stated above. This accounting firm's problem and weaknesses are almost solely in their website qualities, because their website didnt cover enough information that are needed for the customer to hire an accounting service. These issue can affect the trust factor of the buyer towards this accounting firm, there are no further information of their service, nor about their experience and any other important entities that can decide whether they will got hired or not.

Based from the information that stated above, it is logical and proven that customers are not only looking at the qualities of the firm, the way the firm's work, or any other good marks of the accounting firm itself. The reputation and the name of the accounting firms alone can also increase the possibilities of any accounting firm to get hired by a customer. In logical thinking, reputation sub-consciously persuade any customer on believing on the quality of the accounting company even without further knowledge of

the company itself and not just that, this also make the customer have lesser doubts on any accounting company that already well known or the one that have a good reputation on their work result.

As in the case of comparing the Big 4 with other accounting company in Jakarta, one of the reason why the Big 4 are more likely to have a bigger chance of getting hired is because of the good reputation that all these four company's has managed and developed over years of experience in this work field. It is make sense that a lot of experience = better result and performance of work = Better reputation = higher chance to get hired by customer.

In conclusion back to the main subject of the research, the three factors that are very crucial in competing among the accounting firms in Jakarta are, Trust relationship and transaction cost which is the frequency of transaction. As mentioned above all of the growing companies are always building trust and giving the best qualities of services for their customer, in order to successfully create a long term relationship with their customer that's why they succeed in these business, and all of these three factors are actually very related to each other, for example : big company with big transaction cost are usually has a bigger frequency of transaction rather than the small company and of course the big company is more likely to choose the more trusted one that served the customer with a sufficient information, good reputation history, and data that can be check from their website as the first step of making the decision of hiring them. But there are also a possibility of a company that choose to build/make their own accounting department within their companies because of a certain reason, for example : the company is a

big company with a big frequency of transaction, it is stated in the previous journal/study that a company with a bigger frequency of transaction will have a bigger chance on making their own accounting department. This study is pretty much interesting because there are a difference in opinion from the previous experts about these three factors(Trust, frequency of accounting, and size of the company) that affect a company's make-or-buy decision toward their accounting services and so this study also aim to get the result of the survey in order to know which factor affect the most in the customers decision. These matters will be discussed later on in the questionere.

1.2 Scope of research:

This research will analyze the perceptions of a firm toward the 3 factors that has been mentioned before. The purpose of this study is to gain a deeper knowledge of what influence can a company make on hiring a professional accounting service or making their own accounting department based from the perceptions of a company to the accounting firm itself focusing on these 3 factors (trust, transaction cost, and the size of the company). The research will be conducted in Jakarta and focusing to investigate the level of concern of these 3 factors towards accounting company in Jakarta.

In order to obtain the required data for the research, the author will conduct the research in a form of survey by giving a questionere to the respondents and by

direct approach in a certain accessible company. These questionnaires will also be conducted through E-mail or By Phone questionnaire. These questionnaires will be given to any registered company in Jakarta, by approximately 40 companies.

1.3 Aims and Benefits

By conducting this research the author aims to:

- To observe the impact level of the three factors (Trust relationships, size of the company, and frequency of transaction) that encourage a firm to hire an accounting services.
- To identify what is the main factor that influences a firm to hire an accounting service.
- To know why these factors are important for a firm and their personal experience towards the previous/current accounting service that they use in order to governance the firm.

There are some benefits of this research including:

- To increase the concern and knowledge of these 3 important factors for an accounting company in Jakarta.
- To state the level of importance of these factors towards a company that needs an accounting firm.
- To state any other consideration that can influence the 3 factors on hiring an accounting firm.

- To be a useful information as one of the basis for any further research.

1.4 Problem identification

1.4.1 Research question

This thesis is designed to answer the following questions :

1. Does these 3 factors (Trust, Frequency of transaction, and size of the company) that stated above really affect the companys decision making in buying an accounting service or making their own accounting department ?
2. What is the level of concern of a company towards the 3 factors (Trust, frequency of transaction, and size of the company) on making or buying a service for accounting in Jakarta ?

1.4.2 Research hypothesis

In this study there are three hypothesis according to the main journal of this thesis that later will be used to answer the question and the aim of the study, which is:

Hypothesis (H1): A good trust relationship will more likely lead the company to hire (buy) the trusted accounting service externally.

Hypothesis (H2): The frequency of transaction that occur inside the company will encourage the company to make their own accounting service rather than buying an accounting service externally.

Hypothesis (H3) : Based from the frequency of transaction, the size of the company will also increase and so does the other element inside the asset specificity itself which is human capital assets but the author changed it to the size of the company, hence it also will support the company to make their own accounting services.

1.5 Research methodology

Based from the research design that Lars Fallan had done and because the author of this research is doing a replication of the main journal, This research is a descriptive research that tries to reveal the facts and the answer of several questions that are related to the correlation between two parties, which is the company that would like to buy or make an accounting services and the accounting company itself. The data collection takes an important role because the author study research require a data from several registered company in Jakarta. The author also would like to combined the fact that are stated from other journal information resources in order to support the process of the research.

This study is also a statistical study because of the descriptive research also related to the approach of quantitative method by doing a survey of the sampled company. The author will also use a logistic regression analysis because the

hypothesis factors that can affect the estimated impact of independent variable on probability of make or buying decision would be decided (Hosmer and Lemeshow, 1989).

1.6 Thesis structure

The structure of this thesis would be divided into 5 part of chapters which is :

CHAPTER 1: INTRODUCTION

This chapter will discuss about the basic knowledge of the existing accounting firms in Jakarta in a specific information about the accounting company itself. In advance this chapter will define the question that related to the research including research questions, scope of study, aims and benefits.

CHAPTER 2: THEORITICAL FRAME

This chapter it will discuss the 3 key factors that will be investigated and be used in the research. Hence this chapter is covering the relevant meaning of the factors theory that take part as the support of the three factors itself in order to solve the questions for this research.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter will explain about the research objective and how they manage to provide the data findings by adding a research question, hypothesis, research design data collection method, sampling plan and the analysis method that used in this study research.

CHAPTER 4: RESULTS AND ANALYSIS

By the end of conducting the survey, this chapter will explore more about the result and analyze the finding of the survey. After that the result of the research will be processed by using SPSS and then the end result will be evaluated.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

This chapter will be the part where the author will summarize and conclude the end result of the research that will be focused more on several important entities. Therefore this chapter will discuss on how the research can assist the accounting companies to improve the sales of their services by providing the recommendations and managing implications.