

# Accounting Conservatism in Family Businesses: An Ethnographic Study of Guanxi in Samarinda Shipping Company

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## ABSTRACT

This study aims to analyze how accounting conservatism is practiced in a Chinese family-owned shipping company in Samarinda, Indonesia, by exploring the influence of guanxi culture through an ethnographic approach. Guanxi, representing trust, loyalty, reciprocal obligations, and interpersonal harmony, shapes financial decision-making, reporting behavior, and risk assessment in business. The findings suggest that conservatism is not simply an accounting choice, but rather a cultural mechanism to maintain relationship harmony, minimize future uncertainty, and preserve family wealth. This study contributes to the behavioral and cultural accounting literature by demonstrating that accounting practices are embedded in local cultural logic and that family businesses rely on conservative reporting to ensure economic and relationship stability.

Keywords: Accounting Conservatism; Family Business; Guanxi; Ethnography; Financial Reporting

## *Konservatisme Akuntansi dalam Bisnis Keluarga: Studi Etnografi tentang Guanxi di Perusahaan Pelayaran Samarinda*

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Kata Kunci: Konservatisme Akuntansi; Bisnis Keluarga; Guanxi; Etnografi; Pelaporan Keuangan

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## INTRODUCTION

Financial decision-making inherently involves uncertainty, requiring firms to adopt accounting policies that balance prudence and performance representation. When choosing accounting methods, accounting standards have provided companies with flexibility in preparing financial statements (Soekowati et al., 2021). Given the challenging economic conditions ahead, companies must also consider the appropriateness of their accounting methods. One commonly used approach is accounting conservatism, where losses are recognized earlier than gains to maintain stability and avoid excessive expectations. Although criticized for potentially underestimating company performance, including late revenue recognition, early expense recognition, undervaluation of assets, and overvaluation of liabilities (Loen, 2021), conservatism remains viewed as an important mechanism for curbing managerial opportunism and enhancing the credibility of financial statements (Suwarno, 2025).

In Indonesia, the business practices of ethnic Chinese entrepreneurs are inseparable from the role of *guanxi*, which fosters long-term business relationships based on loyalty, reciprocity, and mutual support. *Guanxi* serves as a social governance mechanism that sustains business continuity through strong interpersonal relationships. However, exploration of how local cultural values of *guanxi* shape the practice of conservatism in family businesses remains relatively limited (Jessica M, 2023). This situation reflects the differences between relational-based business practices and formal financial reporting mechanisms. On the one hand, *guanxi* provides relational stability; on the other, accounting conservatism offers financial prudence. Most accounting research in Indonesia still places conservatism on public companies, dominated by the agency and contractual efficiency perspectives, thus ignoring how cultural and relational contexts shape accounting practices in family firms.

This issue becomes increasingly relevant in family businesses, which have distinct characteristics from public companies. Family businesses generally prioritize intergenerational ownership, business continuity, and the protection of family wealth. Research by Lia M (2022) shows that an orientation toward the welfare and protection of family interests drives the implementation of more conservative strategies. Thus, conservatism in family businesses is not solely influenced by regulatory pressures or contractual mechanisms, but also by the family's socio-emotional goals.

The literature mapping reveals three main streams. First, studies emphasizing the cultural dimension in the formation of accounting conservatism in ethnic Chinese communities (Marko & Florencia, 2022). Second, research on *guanxi* as a relational mechanism in family business practices (Ismail & Sakti R., 2022; Felicia K., 2020). Third, quantitative research examining the relationship between family ownership and accounting conservatism within a formal governance framework (Yan Christiano, 2020; Xingqiang Du, 2022). These studies are largely separate, leaving a theoretical gap in understanding conservatism as a

culturally embedded organizational practice. Integration of the guanxi perspective and accounting conservatism practices in family firms through a qualitative approach is still rare.

Based on this, this study integrates the cultural perspective of guanxi and examines accounting conservatism in family firms through an ethnographic approach. This study positions conservatism not merely as a formal reporting mechanism, but as a practice embedded in relational values and a family orientation. The research was conducted at PT. SBS Pelayaran in Samarinda, East Kalimantan, a company officially established in 2020 as an expansion of a long-standing family business in the shipping and logistics sector. Therefore, although the company is relatively new, its business values and control practices reflect the legacy of intergenerational experience in managing a family business.

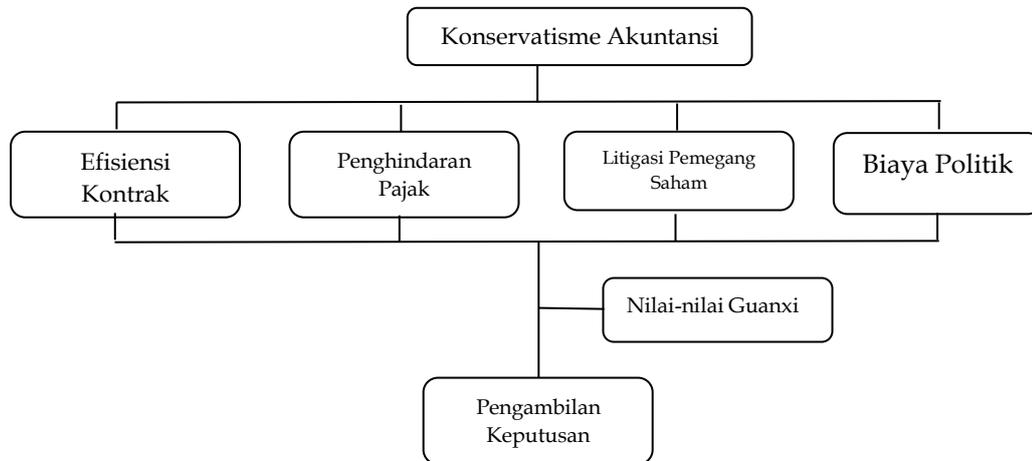
This study contributes to behavioral and culture-based accounting literature by reconceptualizing accounting conservatism as a culturally embedded practice sustained through relational governance mechanisms in family firms.

(Fransiska, 2025) stated that agency theory is based on three main assumptions: (1) the assumption of human nature, humans tend to be self-interested, have bounded rationality, and tend to avoid risks (risk aversion); (2) the assumption of organization – conflict occurs within organizations, efficiency is used as a measure of productivity, and information asymmetry exists between the parties involved; and (3) the assumption of information. Information is seen as an exchangeable commodity. (Sihanta, 2023) views agency theory as a subset of game theory, which includes characteristics of cooperative and non-cooperative games. Cooperative characteristics are evident when both parties must commit to a contract to cooperate. However, non-cooperative aspects also exist because both parties still have different interests and their actions are driven by incentives in the contract. The legal system, escrow agreements, and reputation and ethics serve as mechanisms to enforce commitments. In business organizations, managers who act as agents are generally not owners of the company and therefore have an incentive to maximize their own interests. Financial statement manipulation practices can occur, such as inflating profits to obtain performance-based bonuses (Fitria et al., 2024). Therefore, control mechanisms such as employment contracts, performance incentives, audits, and financial reporting based on accounting conservatism are necessary. For principals, conservatism helps reduce the opportunity for profit manipulation by agents and increases the credibility of information. In family businesses in general, including those in China, agency problems can still arise even if personal relationships are strong. When management functions are separated from ownership or when companies begin to involve external investors, the need for transparency and accountability increases. In these situations, conservative reporting, internal oversight, and the implementation of cultural values such as guanxi can strengthen control mechanisms and mitigate agency risks.

Accounting conservatism is generally defined as the requirement for asymmetric recognition of gains and losses. Conservatism is one of the most important issues in accounting. Conservative accounting can be explained in the context of contract efficiency, tax avoidance, shareholder litigation, and political costs (Fitriyani, 2022), which states that accounting conservatism should be understood from multiple perspectives, rather than a single perspective. Generally Accepted Accounting Principles (GAAP) provide management with the freedom to choose the accounting method used in preparing financial statements (Suyono, 2021). The purpose of this freedom is to allow managers to report financial statements with optimism or pessimism. Optimism in financial reporting tends to overstate financial performance, thus harming users of financial statements. This tendency can be reduced by adopting a pessimistic approach to offset excessive optimism in financial statement presentation (Afriani et al., 2021).

Regarding the direct relationship between Accounting and Ethnography, research by (Xingqiang Du, 2022) findings revealed that Confucian culture measured in a company is significantly positively associated with accounting conservatism, which indicates that Confucian ethics and culture encourage accounting conservatism. In another study by (Yan Christiano, 2020) it was shown that there is a positive relationship between the family as the largest shareholder and controlling shareholder with accounting conservatism and there is no correlation between non-family as the largest shareholder with accounting conservatism, but there is a negative relationship when non-family becomes the controlling shareholder with accounting conservatism.

This is also supported by ethnographic implications in research (Felicia K, 2020) which shows that cultural fusion is not clearly visible and does not affect the control applied to the business, however, with the cultural fusion that exists within the owner and supervisor, it results in better communication skills in the business. Study (Indriani R, 2019) stated that high conservatism in the income statement will be reacted to by the market as bad news. Information uncertainty due to opportunistic management behavior is indicated by the application of high conservatism. Study (Pranata, 2020), the findings show that family ownership has no effect on company performance and independent directors have a negative effect on company performance. Study (Wahyuni, 2016), showed that accounting conservatism will impact the reporting of SHU KSP Nasional Kabupaten Pinrang. Greater recognition of costs and a cautious attitude towards future risks will result in an increase in the amount of general reserves to cover losses charged to the cooperative.



**Figure 1. Framework of thinking**

Source: Research Data, 2025

## RESEARCH METHOD

The research method used is a participatory qualitative method, with the tradition of communication ethnography, the substantive theory raised is symbolic interaction. Qualitative research is often referred to as a naturalistic research method, this is because the research is conducted in natural conditions, as is, or natural settings. The combination of ethnography and communication will ultimately produce unique research. In qualitative research, it will guide communication ethnography to understand how language, communication, and culture work together to produce unique behavior.

This research was conducted at PT SBS Pelayaran, located in Samarinda, as the research location. As a city with a fairly large water area, which has the Mahakam River as the longest river in East Kalimantan with its significant water business. The paradigm used in this research is the interpretive paradigm. Ethnographic studies are one description of how they think, live, and behave (Muhajir, 2017). By using an ethnographic approach, it focuses on the cultural practice of guanxi that forms social patterns, trust relationships, and their influence on the application of accounting conservatism at PT SBS Pelayaran. The interviews applied by the researcher were unstructured in-depth interviews (open) and participant observation by participating in mingling in the environment that is the subject of research and literature study. In this qualitative research, "the researcher alone or with the help of others is the main data collection tool."

To ensure that the selected informants align with the research objectives, the researcher used a purposive sampling technique. The criteria include having been part of PT. SBS for at least one year and being involved in the company's operational activities.

**Table 1. Informant Profile**

Informan/ Inisial	Jabatan
AA	Managing Director
DR	Chief Operating Officer
OY	Supervisor
RN	Finance

*Source:* Research Data, 2025

Based on the research objectives, the collected data will be divided into two main categories: primary data and secondary data. Primary data is data obtained directly from the field through interactions with informants directly involved in the research location, namely PT. SBS Pelayaran Samarinda

## RESULTS AND DISCUSSION

PT SBS Shipping is a Chinese family owned shipping and logistics company. Its decision-making structure is informal, centered on AA as the owner and DR as the operational manager. Discussions among family members are the primary mechanism before implementing any policy. In this case, the domains that emerge most prominently are nuanced and flexible attitudes, which more or less reflect the relationship between the company and its employees and colleagues. Most businesses tend to be as subtle and indirect as possible, to maintain harmony and avoid confrontations that could influence company decisions.

These findings were obtained from four key informants who have different roles in the organizational structure, namely AA (family business manager), DR (family generation successor who has been involved for 14 years) in various other companies owned by Mr. AA's family), RN (financial administrator), and OY (field supervisor). The following domain analysis reveals the deep meaning behind the family company's financial actions and decisions.

Researchers' observations at the research location revealed certain symbolic applications of red accessories, which are believed to bring good luck, happiness, and prosperity. According to Mr. AA, one of the informants, he explained:

"Some people say that the color red shows courage, it's a symbol of luck and prosperity too. I also want my business to continue to prosper, that's why most of the symbols in my places of worship are also red.

"That's right, but if people say that, I just believe it, especially since there are lots of red ornaments in my house and it's just become a symbol."

Apart from that, the table with drawers or what they usually call a table with drawers, based on Mrs. DR's statement, states that:

"One of the things that must also be there is like a table with drawers, my father said, a table with drawers is useful so that personal money is separate so it can't be mixed up. So I think that's an important item that is typical of Chinese people if they have a place of business, for example, people who sell things definitely have a table with drawers, right, and their table is always locked because I do that too."

Likes the number 8, this is also based on Mr. AA's statement, namely:

"I'm confused about explaining why it has to be the number 8, because if we look at the number 8, it forms two circles that are connected to each other and the shape is not interrupted, so that makes the symbol universal, meaning continuity that is not easily broken. I hope that the ship that has the number 8 on it will also have unbroken fortune, Amen."

Revealing the proverb "don't let your expenses be greater than your income", Mr. OY's statement said that:

"These days, many people call Chinese bosses stingy, but they're not actually stingy, they just adjust their expenses to their income. Because if they have a lot of expenses but don't balance it with their expenses, it will result in a loss for the business. So, save as much as possible because we don't know what will happen in the future. There's also that saying: "Seek knowledge even as far as China." It's true that Chinese people are smart and don't spend their money carelessly."

AA describes the use of the color red:

*"There's a lot of red in the office and on the ship. Because for us, red symbolizes good luck, fortune, and enthusiasm."*

DR adds about the chest of drawers:

*"The table with drawers is believed to be able to store fortune and important documents. This is a family custom that has existed for a long time."*

AA also explains the importance of the number 8:

*"The number 8 is good, it means good luck. So if possible, we choose the number 8 in important documents or dates."*

Besides visual symbols, traditional advice also serves as a guide, as OY conveys:

*"The proverb that is most often reminded is: don't let your expenses be greater than your income."*

Cultural symbols serve as a reinforcement of identity and a way of maintaining goodwill in business.

This is described by RN:

*"Usually, it's discussed first between AA and DR. Once a decision has been made, it's then conveyed to me."*

**Tabel 2. Domain Analis**

Included Terms	Umbrella Terms
Red Color Layered Table Number 8	Symbolic
Division of Tasks Mutual Cooperation Continuity Courage Dicipline	Kinship Perseverance

Source: Research Data, 2025

Although informants are familiar with the domains of their culture, including encompassing terms, encompassed terms, and encompassing relationships, this knowledge is often hidden, hidden from everyday awareness, making it difficult to directly inquire about the domains. The biggest barrier to discovering these domains stems from the ethnographer's own cultural background. The first step in the initial domain search is to select a sample of literal notes from an ethnographic interview. Literal notes collected through participant observation can also be used. The ethnographic notes taken during the researcher's first day of interviews with Mr. Hendra are one of the literal note samples selected by the researcher in the initial domain search for this study. The researcher chose these notes because they clearly illustrate how Chinese cultural practices operate, as they were directly observing and assisting at the research location.

According to the researcher, several of these terms describe the true meaning of the practice of accounting conservatism in Chinese culture. And according to the researcher, these terms are truly in accordance with the reality of Chinese cultural practices from ancient times to the present day. The research analysis shows that the practice of *guanxi* is very strong in the activities of Chinese family business conservatism at PT SBS, where a strong network of personal and family relationships forms a basis of trust and loyalty that impacts business decision-making. This *Guanxi* attitude encourages harmony and collaboration to maintain the business as much as possible, while also influencing the communication patterns and internal workflow of the Company.

Prudence emerged as the most powerful and recurring theme in all informants' narratives. This principle is not only applied to accounting records but has been a guiding principle of this family business for generations.

AA affirms the principle:

"We never record income until the money actually comes in. Even if the work is completed, if it hasn't been paid, it's not considered income."

RN as a financial admin gave similar testimony:

"We make big decisions if we haven't properly calculated the risks. It's better to be slow but safe."

OY as an operational supervisor sees the impact in the field:

"They are very careful. Even small expenses must be reported with complete proof. It can't be done carelessly."

This analysis was conducted through a naturalistic-participatory approach, in which researchers not only observed the company's operational activities but also actively engaged in daily activities, thereby gaining a deep understanding of the cultural meaning behind each business decision. Observations show that accounting conservatism at PT SBS is not merely a technical principle for recording revenue, recognizing assets, or preparing financial statements. This conservative practice is an expression of Chinese cultural values that have been passed down through generations, including prudence (*jinshen*), self-control (*keji*), patience in action (*san si er hou xing*), and long-term orientation. These values are deeply

embedded in the mindset of the owner and family members, so that every financial decision is always based on considerations of risk, business continuity, and family honor.

Guanxi, or social relationships based on trust, has become a dominant domain in managing a company's external relations. AA stated that personal relationships are often stronger than contracts:

*"Once we have trust, the collaboration usually continues. We consider many of them like family."*

DR added that the company maintains relationships in social ways:

*"We often eat together or just have casual chats with our partners. That's how we maintain our long-standing relationships."*

The impact is evident in the practice of tolerance toward long-standing partners who are late in paying. RN explains:

*"If the partner has been with us for a long time and things usually run smoothly, we'll give them extra time. But I'll still report it to the boss."*

OY also acknowledges that personal relationships are very influential:

*"When you're close, communication is definitely easier. But there are still limits to how you can avoid disrupting operations."*

In addition to accounting conservatism, guanxi, a network of personal relationships based on trust, loyalty, and reciprocity, plays a central role in social interactions and business decisions at PT SBS. Guanxi serves as social capital that balances relationships and business interests. Guanxi not only regulates external relationships with business partners but also strengthens internal relationships between family members and employees. Trust is the primary foundation; long-term relationships are prioritized over short-term gains. For example, the company is tolerant of late payments from long-standing customers, but still records transactions conservatively in accordance with financial realities. This demonstrates that guanxi and accounting conservatism complement each other : guanxi maintains harmony and loyalty in social relationships, while conservatism safeguards the integrity and accuracy of financial reporting (Syarifudin 2020).

The value of harmony or he is highly valued in family and work relationships. Decisions and criticism are delivered gently to avoid conflict. AA describes family communication patterns:

*"We don't like to get angry or harsh right away. If there's a problem, we talk it over properly first."*

DR emphasizes the importance of avoiding confrontation:

*"The most important thing is to maintain good relationships within the family and with employees. Don't let anyone feel like they're being blamed in public."*

OY as an employee reinforces this observation:

*"If I'm wrong, they usually tell me off nicely. Never in a loud voice."*

RNs acknowledge that this approach makes the work environment feel safe and comfortable:

*"The atmosphere in the office is calm, no one likes to shout. So I can work more focused."*

Further analysis shows that the interaction between conservatism and guanxi creates a balanced and adaptive decision-making system. On the one hand, conservatism emphasizes prudence, transparency, and accuracy in financial reporting. Harmony is a crucial foundation for maintaining a company's internal stability. On the other hand, guanxi encourages social flexibility, tolerance for interpersonal risk, and moral considerations in business relationships. For example, if a business partner experiences late payments, the company does not apply aggressive pressure that could damage the relationship, but instead delays revenue recognition until the funds are received. This practice confirms that conservatism does not negate social values, and guanxi does not undermine accounting principles (PSP 2017).

PT SBS is a family business that firmly places family members in strategic positions. From an internal company perspective, the integration of these two values also has a significant impact on organizational culture and family governance. Financial decisions are made through deliberation among family members and management, so that major decisions are not made individually. DR describes the relationship of structure and lineage:

*"This business started with my grandmother, then it was shared with her children. SBS is part of our family, so the family is the one who holds the key to making decisions."*

AA positions himself as the primary person responsible for:

*"For big decisions, it's still up to me and my family to make them. The employees just help carry them out."*

RN confirms that financial decisions are family-centered:

*"I just took notes and reported. The decision still rests with AA and DR."*

OY explains the position of non-family employees:

*"We just followed directions. But the family treated us well, so there were no problems."*

The application of conservative principles also enhances the company's financial resilience. Through prudent cash management, delayed profit recognition, and disciplined expense controls, PT SBS is able to weather economic crises, market fluctuations, and industry dynamics without sacrificing operational continuity. This distinguishes the company from other companies that are more aggressive in pursuing short-term profits. Conservatism at PT SBS is not only a financial strategy but also a form of intergenerational responsibility, ensuring that the family business can be passed on in a stable and healthy condition.

Administrative discipline is a prominent domain in a company's financial system. Transparency, honesty, and prudence in financial reporting enhance the trust of business partners, customers, and financial institutions. These well-maintained social relationships support smooth operations and open up new business opportunities, enabling companies to maintain revenue stability despite competition and market uncertainty. In this context, accounting conservatism is not only an internal mechanism but also a tool for building the social and moral reputation essential to the sustainability of Chinese family businesses.

RN explains her routine:

*"I record every transaction, both income and expenses. Everything must have a receipt. I send out reports weekly and monthly."*

OY admitted the same thing on the field:

*"I must report every operational expense in full, there must be nothing unclear."*

DR emphasizes the importance of accuracy:

*"If the report is inaccurate, the decision could be wrong. So we're very detailed about this."*

Overall, the analysis concludes that accounting conservatism at PT SBS Pelayaran Samarinda is not merely a technical rule, but rather a cultural practice internalized in the thinking and behavior of the owner's family members. Interaction with *guanxi* creates a balance between financial objectivity and social values, enabling the company to maintain financial stability, harmonious social relations, and long-term business sustainability. This practice demonstrates that in Chinese family businesses, business success is measured not only by profit but also by the ability to maintain reputation, social relations, and moral values passed down across generations. Based on the analysis of PT SBS Pelayaran Samarinda, this study found that accounting conservatism and *guanxi* practices form a holistic management system, where cultural values, social norms, and business strategies interact to create corporate sustainability and performance. The synthesis of these findings emphasizes the dynamic relationship between conservative accounting principles, *guanxi* practices in social networks, and their impact on decision-making and corporate governance.

First, accounting conservatism serves as an internal control mechanism that ensures accuracy, transparency, and prudence in financial management. This conservative value is not merely technical, but reflects a Chinese cultural philosophy that emphasizes prudence, intergenerational responsibility, and a long-term orientation. Its application is evident in prudent revenue recognition, disciplined cash management, and carefully considered expenditures. These practices create financial stability, reduce the risk of errors or overstatements, and enable companies to more adaptively navigate the uncertainties of the shipping industry (Saraswati and Prajanto 2025).

Second, *guanxi* serves as a social tool that complements accounting conservatism. In the context of Chinese family businesses, *guanxi* builds a network of trust, loyalty, and moral responsibility that underpins internal relationships between family members and external relationships with business partners. The practice of *guanxi* encourages social flexibility and tolerance for interpersonal risk, so that every business decision is based not only on financial considerations but also on ethics and human values. For example, a company maintains relationships with customers experiencing late payments while maintaining conservative accounting practices to ensure that financial statements reflect reality.

Furthermore, this study found that conservatism and *guanxi* practices are adaptive. Facing shipping industry dynamics and market pressures, the company

does not close itself off from change, but instead adheres to conservative principles while leveraging its guanxi network to adjust its strategy. This flexibility allows PT SBS to withstand challenges, including fuel price fluctuations, regulatory changes, and intense competition. In other words, conservatism and guanxi do not hinder innovation but instead serve as a foundation of stability that supports adaptation. Accounting conservatism and guanxi are not separate practices, but rather complementary elements in forming a holistic business system. Conservatism emphasizes accuracy, prudence, and financial sustainability, while guanxi emphasizes trust, loyalty, and moral values. The two interact to create a realistic, adaptive, and long-term decision-making mechanism, enabling Chinese family businesses to maintain operational stability, reputation, and continuity across generations.

### **CONCLUSION**

Based on the results of ethnographic research on the practice of accounting conservatism and guanxi in Chinese family businesses at PT SBS Pelayaran Samarinda, it can be concluded that culturally based accounting conservatism in practice is not only carried out technically, but is also influenced by Chinese cultural values. The principle of prudence and careful consideration in managing income, expenses, assets, and cash reserves is a reflection of the moral and social philosophy held by the company. This study also shows the role of guanxi in decision-making, providing an understanding that the value of guanxi in personal and family relationship networks forms the main social framework in the business decision-making process. Guanxi facilitates harmonious communication, internal collaboration, and risk management, thereby supporting business stability and sustainability. The integration of accounting conservatism and guanxi creates a balance between financial prudence and social flexibility. This combination enables companies to prudently manage risk while maintaining strong interpersonal relationships. Furthermore, the practice of accounting conservatism becomes part of a moral responsibility, protecting family reputations, and a commitment to intergenerational business continuity, thus going beyond mere formal procedures. For future research, it is recommended that researchers conduct further research in other family firms or in different sectors to understand the variations in the application of conservatism and guanxi. Furthermore, quantitative research can be developed to objectively measure the impact of accounting conservatism on financial performance. Practically, it is also important for regulators to understand that accounting conservatism practices are influenced by cultural values. Therefore, policies or external audits need to consider the social context and encourage companies to maintain a balance between regulatory compliance and cultural practices to ensure effective.

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