



Research Paper

## Mediation Effect of Cultural Capital on the Influence of Human Resources Capital and Physical Resources Capital Towards Regional Financial Condition of the Government of South Sulawesi

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**ABSTRACT:-** In the context of regional development, the government's role as an actor mainly be carried out by the government through expenditures are able to directly encourage the movement of the economy, both at national and local level. Some districts and cities in South Sulawesi received an allocation of funds from the center in the areas of health and education in 2012. The purpose of this study was (1) to test the mediating effect of cultural capital on the influence of human capital on the financial condition of local government of South Sulawesi province, (2) test the mediating effect of cultural capital on capital influence of physical resources on the financial condition of local government of South Sulawesi province, inferential statistics were used to analyze the data of this study is the analysis of PLS. The samples unit 114 SKPDs. Conclusions as follows: (1) human resource capital and physical capital resources affect the cultural capital. Both human capital and physical capital will both cultures are obtained. (2) human resource capital and physical capital resources mediating effect on the financial condition of the area through the medium of cultural capital. Thus the cultural capital is a mediating variable that bridges the influence of physical and capital human resources to the financial condition of further research areas are advised to use public or stakeholder respondents that research results are obtained more comprehensive.

**Keywords:-** capital human resources, physical capital resources, cultural capital, and financial condition

### I. INTRODUCTION

In the context of regional development, the role of the government as the actors will be primarily conducted by the government through expenditures which are capable of encouraging the movement of the wheels of the economy directly, both at national and local level, through the development of infrastructure or public service facilities. The role as a facilitator will be shown more through conducive policies towards economic development, both through fiscal and non-fiscal policies. Both roles above will appear in fiscal policy at regional level. The instruments of fiscal policies used by local governments in order to perform public service and encourage economic growth will be reflected in the regional budget revenue and expenditures (APBD).

Several district government and municipal government of South Sulawesi receive fund allocation from central government in the sector of health and education in 2012. The financial allocation in the district and city in South Sulawesi has been carried out in the management function. Therefore, according to Merton and Bodie (2005), the financial condition of a local government is determined by the financial system functions to raise and allocate the resources or sources of revenue which have the potential to generate revenue and employs huge number of workforce. The empirical evidence collected is Bantaeng Regency has funded IDR 81.280.000 for public health functions. Bulukumba Regency has received fund allocation of IDR 10 billion from the State Budget (Budget), besides that received the Special Allocation Fund (DAK) amounted to USD 3.5 billion, and the allocation of assistance funds from the central government amounted to IDR 4.5 billion. The Fund from the central government to the South Sulawesi is resulted from several programs of central government that have just started and are still being implemented, especially in the development of a number of physical projects. Particularly for General Allocation Fund of 2011, South Sulawesi received IDR 600 billion. It was intended to pay the salaries of civil servants and 10 percent of salary increase plan. Thereby, the fund allocation based on functions is required, which is able to provide income economically.

Improving the quality of the budget through the planning and composition of budget will improve also the quality of the planning and budgeting of regional development. Downs and Rocke (1984) emphasize that the budget can be improved by making the anticipation on the population growth, resource empowerment, investment creation that may absorb the employment, and increasing the real industrial production which is based on local resources. Regional government needs to pay serious attention to the strengthening the capacity of the planning and budgeting through competence improvement of personnel officers and the managers of regional financial planner as well as creating the perception understanding among the stakeholders of regional development on the process of planning and budgeting mechanisms. Specifically, local governments need to focus more on paying attention to the provision of documents and quality improvement of planning and annual budgeting, both at local level and especially at the level of SKPD.

The phenomena happened in the districts/ cities of South Sulawesi which are threatened to experience payment failure are Bone District and Palopo City, which means much of the regional debt are not accommodated in their regional budget and even their debts have not been paid since 2009. The potential cash deficit (payment failure of regional government) is the condition in which the Regional Government is unable to pay its short-term liabilities. Such condition occurs when the revenue target is not met, or in other words, the realization of income is significantly lower than the revenue budget. This condition will allow the occurrence of SPM of the unissued SP2D Budget Users since the unavailability of fund in the Regional Treasury.

Human resources in South Sulawesi are continuously being developed through the education sector. The education sector in South Sulawesi gains major attention to receive the financing program. Albright (2011) states that the government environment in the form of increases in population and public service needs to determine the fiscal budget, whether being increased or decreased. The number of primary and secondary school facilities increased by 8910 in 2010, due to the increasing number of students, thus the addition of teachers is also increased. The increase of expenditures in education is also followed by an increase in the achievement of educational objectives. Education expenditures in 2012 grew by 27 percent per year, in which three-quarters was used for personnel expenditure. The ratio of Student-teacher and the ratio of school-students had improved in education level. The literacy rate increased from 85 percent in 2005 to 88 percent in 2010, although still far behind the national average, by 93 percent in 2010. The literacy rate and average period of schools in urban areas were better than schools in districts, whereas Makassar, Palopo, and Pare-pare had the highest number. Female students tended to have shorter school period than male students, despite the participation rate of female students was slightly higher than male students. It shows that South Sulawesi faces challenges in the provision of education services in rural areas and in female students.

Based on the phenomenon and empirical evidences described above, this research seeks to analyze the financial condition of regional government in South Sulawesi. Meanwhile, the objectives of this research are: (1) to test the effects of cultural capital mediation on the influence of human resources capital on the financial condition of regional government of South Sulawesi Province, (2) to test the effects of cultural capital mediation on the influence of physical resources capital towards the financial condition of local government of South Sulawesi Province,

## **II. PREVIOUS RESEARCH**

The research by Donath and Cismas (2008) on public financial units in the globalization market in the America through the financial intensity. This research is aimed to investigate the causes of the financial stability of public services by employing systematic risks and more vigilant supervision. This research was conducted on the basis of surveys on 320 governments by using OLS linear-regression. The results showed that financial stability was determined by periodic supervision practice by collecting the data, conducting reviews of the data, supervising, and publishing consolidated financial statements with banks and other relevant institutions.

Maher and Deller (2007) with the title "Municipal Responses to Fiscal Stress". This research was conducted on the basis of institutional surveys on several cities in Wisconsin-American in 2004 undergoing tax revenues. The research employed the pressure variable stress fiscal tax, public finance, and the reduction of retrenchment. This research used the OLS analysis to determine the causes and settlement of tax pressure in several cities. The results showed that the tax pressure was resulted from excessive funding sources to non-potential economic sources. By implementing strategies for reducing, the budget was reduced in non-potential areas and conducting re-surveys until the empowerment of the potential resources was developed.

Merton and Bodie (2005) under the title of "Designing of Financial System toward a Synthesis of Function and Structure". This research was aimed to observe the approach to the financial system of the government, regional governments, companies, households, and other institutions existing within an entity in the United Kingdom government. This research was conducted in a synthetic analysis to observe some of the behavior of financial functions within organizational structures by associating them with political condition, financial intermediaries, markets, and regulatory agencies to adapt to the environmental changes. The results

indicated that the unplanned financial decisions and the behavior of financial decision makers would lead to financial costs or risks, for it did not involve financial functions in the financial structures.

Baldacci, Emanuele, et al (2011) under the title "Measuring Fiscal Vulnerability and Fiscal Stress". The research was aimed to determine the most appropriate fiscal indicators to promote tax revenue in the public sector. This research employed survey research implementing OLS and using the framework established by Coleman (2013), in which the indicators developed brought up the presence of signal on financial risks and the ability of decision makers to reduce tax pressure. This research compared the tax pressure index and tax weakness index. The results indicated that the tax agencies, tax regulations and tax sources might increase the economic strength and expenditure control.

Kopta (2009) under the title "Possibilities of financial health indicators used for prediction of the future development of agricultural enterprises". This research was aimed to determine the sound financial condition in a regional government. By a healthy financial condition, it can predict revenue and risks that would be encountered in the future. Besides, financial condition indicators can also become indicators of the management efficiency of government finance. This research took samples in the agricultural sector by using analytical techniques of Gurčik index and Chrastinova index in 99 places, with the assumption that the agricultural sector will experience financial problems, if in the long run it did not predict the needs for funds, which was primarily sourced from loans. The results indicated that the financial condition indicators could not be used as predictors on the financial capacity condition and could not determine the risks in the future, since the indicators used were not time measurable indicators, but the indicators that did not contain uncertain conditions, thereby the uncertain indicators generated bias prediction decisions.

### III. RESEARCH HYPOTHESES

The hypotheses that will be tested in this research are;

1. Cultural capital is the mediation variable of human resources influence that affects on the financial condition of regional government in South Sulawesi
2. Cultural capital is mediation variable of the influence of physical resources that affects on the financial condition of regional government in South Sulawesi

### IV. RESEARCH METHODOLOGY

This research was included as survey research method, i.e. the method of primary data collection that used instruments, i.e. questionnaires ranging in a scope, such as social environment, activities, opinions and attitudes (Bungin, 2011: 2). The data analysis focused on the field of analysis study and data interpretation to draw conclusions. The analysis was used to test research hypotheses that had been determined by using the sample data obtained. Inferential statistics method used in the research data analysis was PLS analysis. PLS analysis in this research was to determine the influence of Capital Human Resources, Physical Capital Resources, and Cultural Capital towards the Regional Financial Condition of South Sulawesi Province.

The method of sample selection was multistage random sampling, i.e. the sampling done in stages according to the population characteristics of which were widespread in various cities and districts (area/ cluster) in South Sulawesi Province. The sample units were made 114 SKPDs.

### V. RESULTS OF VALIDITY AND RELIABILITY TESTING

The following is a table of validity and reliability testing of the research instrument on each variable:

**Table 1. Results of Test Validity and Reliability**

Indicator	X1		X2		Y1		Y2	
1	X1.1	0.817	X2.1	0.821	Y1.1	0.667	Y2.1	0.776
2	X1.2	0.824	X2.2	0.826	Y1.2	0.617	Y2.2	0.803
3	X1.3	0.835	X2.3	0.790	Y1.3	0.673	Y2.3	0.793
4					Y1.4	0.683		
5					Y1.5	0.710		
6					Y1.6	0.699		
Alpha	0.765		0.742		0.758		0.700	

From the table above, it appears that the correlation value of each indicator and item is above 0.3. Therefore, the overall indicators and question items are valid. Meanwhile, the Cronbach Alpha value is obtained above 0.6 for all variables, thus it can be concluded that the research data instruments are valid.

**VI. RESULTS OF HYPOTHESIS TESTING**

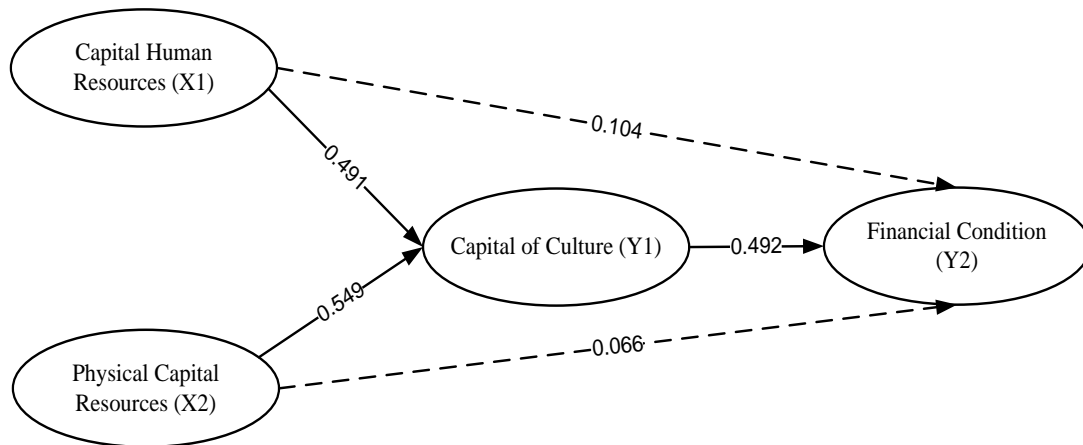
The stage in the PLS analysis is testing of goodness of fit model. The total coefficient of determination is amounted to 70.46%. It indicates the diversity of data that can be explained by the model by 70.46%, or in other words, the information contained in the data of 70.46% can be explained by the model. Meanwhile the remaining 29.54% is explained by other variables (those which are uncontained in the model).

The hypothesis testing was conducted by using T-statistics in each direct influence partially. The results of the complete analysis are contained in the PLS. The following table presents the results of hypothesis testing of direct influence.

**Table 2. Results of Direct Impact Testing Model PLS**

Relationship Variables	Coefficient	T-Statistics	P-value	Conclusion
Capital Human Resources (X1) to the Regional Financial Condition (Y2)	0.104	1.015	0.313	Non-Significant
Capital Human Resources (X1) to the Capital of Culture (Y1)	0.491	7.191	0.000	Significant
Physical Capital Resources (X2) of the Regional Financial Condition (Y2)	0.066	0.619	0.537	Non-Significant
Physical Capital Resources (X2) of the Capital of Culture (Y1)	0.549	8.047	0.000	Significant
Capital Culture (Y1) to the Regional Financial Condition (Y2)	0.492	4.003	0.000	Significant

Graphically, the results of PLS analysis testing are presented as follows.



**Figure 2: Results of PLS analysis**

Based on the table and the figure above, the results of hypothesis testing of direct influence in the inner models are as follows:

1. The testing the influence between the variables of Capital Human Resources (X1) on Regional Financial Condition (Y2), PLS coefficient value is obtained at 0.104 with a p-value of 0.313. Because the p-value is > 5%, **there is no sufficient evidence to accept the hypothesis** that the "Human Resources Capital (X1) affects on Regional Financial Condition (Y2)". It means that the no matter how big the value of Human Resources Capital (X1), it will not result in changes in the intensity of the Regional Financial Condition (Y2).
2. The testing the influence of variable of Human Resources Capital (X1) on the Cultural Capital (Y1), PLS coefficient values is obtained at 0.491 with a p-value of 0.000. Because the p-value is <5%, **there is no sufficient evidence to accept the hypothesis** that the "Human Resources Capital (X1) affects the Cultural Capital (Y1)". Because the PLS coefficient is positive, it can be concluded that relationship between the two is positive. High Human Resources Capital (X1) will result in the high Cultural Capital (Y1).
3. The testing the influence between the variables of Physical Resources Capital (X2) on Regional Financial Condition (Y2), PLS coefficient value is obtained at 0.066 with a p-value of 0.537. Because the p-value is > 5%, **there is no sufficient evidence to accept the hypothesis** that the "Physical Resources Capital (X2) affects on Regional Financial Condition (Y2)". It means that no matter how big the value of Physical Resources Capital (X2), it will not result in changes in the intensity of the Regional Financial Condition (Y2).

4. Testing of influence between the variable of Physical Resources Capital (X2) on the Cultural Capital (Y1), PLS coefficient value is obtained at 0.549 with a p-value of 0.000. Because the p-value is <5%, **there is sufficient evidence to accept the hypothesis** that the "Physical Resources Capital (X2) affects the Capital of Culture (Y1)". Because PLS coefficient is positive, it can be a concluded that the relationship between the two is positive. High PLS of Physical Resources Capital (X2) will result in the higher PLS of Cultural Capital (Y1).
5. The testing of the influence between the variables of Cultural Capital (Y1) on Regional Financial Condition (Y2), the PLS coefficient value is obtained at 0.492 with a p-value of 0.000. Because the p-value is <5%, **there is sufficient evidence to accept the hypothesis** that the "Cultural Capital (Y1) affects the Regional Financial Condition (Y2)", with the positively marked coefficient. It means that the high PLS value of Cultural Capital (Y1), it will result in higher PLS value of Regional Financial Condition (Y2).

The following table presents the results of hypothesis testing mediation effects.

**Table 3. Results of the PLS model Mediating Effects Testing**

Relationship Variables			Coefficient Effect Mediation	Conclusion
Independent	Dependent	Intermediary		
X1	Y2	Y1	$0.491 \times 0.492 = 0.242$	Significant
X2	Y2	Y1	$0.549 \times 0.492 = 0.270$	Significant

The following table presents the results of hypothesis testing of mediation effects. Based on the table above, there are two mediation effects with the following results:

1. There are effects of mediation of cultural capital on the influence of Human Resources Capital and the Regional Financial Condition, with the mediation influence coefficient of 0.242 (0.491x0.492). Since both direct influences form the mediation influence, those are included significant. It means that high value of Human Resources Capital, it will result in higher value of Regional Financial Condition, if the value of the Cultural Capital is also high.

The theoretical support on the influence of human resources capital on the regional financial condition exists in the combination of three theories, i.e. Public Choice Theory, which explains that the optimal human resources will reflect in good performance; Legitimacy Theory which states that through the enforced cultural capital, it will lead to a better regional financial condition; and Agency Theory which states that the community who has the human resources capital and as the principals will require the accountability of government as the agents in the assessment of the regional financial condition.

The results of this research confirm the previous research, i.e. Nwanyanwu, Loveday A. (2012); Bosma, Niels, et. al. (2002); Jaeger; Soedjono (2005); Ekowati, et. al.; Kartiningsih (2007); Nasih (2012); Ciptaningsih (2013); Al-Zahrani, Abdullah Attia, and Almazar, Ahmad Aref; Khan, Furqan Ahmad, et. al; Jaeger; Winarno, et. al. Forrest and Dunn (2006: 23), stating that the human resources capital affects on the regional financial condition through the intermediary of cultural capital.

2. There are effects of mediation of Cultural Capital on the influence of Physical Resources Capital and the Regional Financial Condition, with mediation influence coefficient of 0.270 (0.549x0.491). Since both the direct influences form mediation influence, they are both significant. It means that the high of Physical Resources Capital value, it will result in higher Regional Financial Condition value, if the Cultural Capital value is also high.

The theoretical supports on the influence of Physical Resources Capital towards the Regional Financial Condition exist in the combination of three theories, i.e. Public Choice Theory which describes that the optimal physical resources will reflect in good performance; Legitimacy Theory which states that through the enforced cultural capital, it will lead to a better regional financial condition; and Agency Theory which states that the community who has the human resources capital and as the principals will require the accountability of government as the agents in the assessment of the regional financial condition.

The availability of physical resources in the form of work and technological means according to Al-Zu'bi (2011) will strengthen the cultural capital value. Capital physical resources can strengthen the cultural capital of a regional government. The results of this research confirm the research by Moghaddam (2013); Luthans, Fred and Stajkovic Alexander (1997); Halim, Hasliza Abdul, et. al. (2014), as well as Nasih (2012); Ciptaningsih (2013); Al-Zahrani, Abdullah Attia, and Almazar, Ahmad Aref; Khan, Furqan Ahmad, et. al.; Jaeger; Winarno, et. al. Forrest and Dunn (2006: 23), stating the cultural capital affects the regional financial condition.

Based on the findings of the research, it can be declared that Human Resources Capital, Physical Resources Capital, And Cultural Capital analyzed in the research are important variables in order to improve the regional financial condition in South Sulawesi. With an integrated analysis, the findings of the research are

capable of providing more comprehensive theoretical implications in the development of scientific and as a practical contribution for the regional government in South Sulawesi.

The findings of this research can provide a theoretical contribution to the scientific development, particularly in the regional financial sector and especially in the development of influence path model in the research. The first finding of this research is that the cultural capital is a mediation variable that bridges the influence of human resources capital and physical capital on the regional financial condition. If there is no presence of cultural capital, thus there is no influence of human resources capital and physical capital towards the regional financial condition, in the light of the absence of direct influence of human resources capital and physical capital towards the regional financial condition. This theoretical implication shows the importance of the role of cultural capital in its relation between human resources capital and physical capital towards the regional financial condition.

The practical implication shows that human resources capital contributes more strongly towards the regional financial condition, compared to physical resources capital. It is indicated from the higher coefficient of mediation influence. Thereby, the improvement in human resources capital is given more priority than the improvement of physical resources capital.

The researcher limits the variables used only up to four variables, namely: Human Resources Capital, Physical Resources Capital, Cultural Capital, and Regional Financial Condition. On the other hand, other variables are also related to the variables above which are being put aside. The objects of the assessment being investigated in this research are limited to SKPDs which are services-oriented, namely: education, health, public works, and regional revenue office, therefore, they are not yet generalized to other SKPDs that have not been investigated.

## **VII. CONCLUSIONS**

From the PLS analysis results in the previous sub-chapter, several conclusions are obtained as the following: (1) human resources capital and physical resources capital affect on the cultural capital. High of human resources capital and physical capital will make high the cultural capital obtained. (2) Human resource capital and physical capital resources have mediation effect on the regional financial condition through the intermediary of cultural capital. Thereby, the cultural capital is a mediation variable that bridges the influence of human resources capital and physical capital towards the regional financial condition.

Several recommendations in this research for regional governments are the presence of the roles of human resources capital, physical resources capital, and cultural capital towards the creation of decent regional financial condition, thus it is recommended to the regional governments to adopt policies which are oriented to human resources development (particularly in the improvement of employees' skills/ experiences), the improvement of physical resources (particularly in the improvement of government investment). Secondly, this research uses the regional government officials as the respondents. The assessment on the public or other stakeholders has not been carried out. Further researches are recommended to use the public or stakeholders as the respondents, thus the research results obtained are more comprehensive.

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