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The effect of human capital on regional financial conditions through cultural capital of employees

Nirwana Nirwana ▼

International Journal of Law and Management

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Sincerely,
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Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Accept

Comments:
See point no 5

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Journal:	<i>International Journal of Law and Management</i>
Manuscript ID	IJLMA-03-2017-0042.R1
Manuscript Type:	Research Paper
Keywords:	Human capital, Cultural capital, Regional Financial, SEM

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The effect of human capital on regional financial conditions through cultural capital of employees

Abstract:

Purpose: This research will discuss about whether human capital and cultural capital affect the financial condition of a region and whether cultural capital has a mediating effect (mediator) on the effect of human capital on the financial condition of a region. Moreover, this research also refines previous research by combining the simultaneous effect of the variables Human Capital and Cultural Capital on the Financial Condition of a Region and examining the mediating effect of the variable Cultural Capital.

Methodology: Research was conducted at the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province with a total population of up to 630. The inferential statistical analysis using the method of variance-based Structural Equation Modeling (SEM) known as Partial Least Squares Structural Equation Modeling (PLS-SEM).

Finding: Human capital has positive influence on cultural capital. The higher the human capital, primarily reflected in the work experience, will result in increasing the capital of culture in the working environment of local government in the province of South Sulawesi.

Originality: Originality of this paper shows: (1) an inferential method used in this research is a Structural Equation Modeling (SEM) (2) the location of the research located in of the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province, Indonesia, Indonesia which there hasn't been research by the methods and the same location.

Keywords: Human capital, Cultural capital, Regional Financial, SEM

1. INTRODUCTION

The regional autonomy policy is essentially aimed at promoting the capacity of local governments to provide public services in a more effective and efficient manner. Closeness with government organizations at the regional level is expected to help collect real aspirations of the public with regard to what services they need. Therefore, it is expected that input will be obtained in an attempt to plan development in order to eliminate the gap between the development planning carried out by the government, including both the program and the budget, and the real needs of the public.

Among the keys to a successful regional autonomy policy as reflected from the successful administration or regional government organizations is inseparable from the quality of services these regional governments give to the public. Public services can be delivered on an effective and efficient basis by regional governments if their financial condition is good or healthy. The term financial condition according to Dinapoli (2011: 2) refers to a financial condition defined based on the ability of regional governments to balance between revenues and expenditures by still maintaining the quality of services provided to the public. While according to Kamnikar (2006), the financial condition of a government is defined as the ability of the government to fulfill its obligation to serve its constituency in a sustainable manner. Furthermore, the Public Sector Accounting Board (2007) defines it based on the government's ability to meet its financial obligations and commitment to serve the public, creditors, employees, and others.

Based on several definitions of the term financial condition above, it can be concluded that a financial condition refers to the ability of regional or regency/city governments to balance between necessary expenditures and sources of revenues, while providing services in a sustainable manner. According to Dinapoli (2011), a group of people with a good financial condition is always served pretty well if such a financial condition is comprised of three factors, namely environmental factors, institutional factors, and financial factors.

The financial condition of a region is reflected in the dependence level of the regional government on the central government, which is still fairly high in South Sulawesi. This is indicated by a number of regions, namely Makassar City, Bone Regency, Gowa Regency, and Wajo Regency, in which their revenues were fairly high despite their relatively low Regionally-Generated Revenue (PAD) , i.e. by 6.17%, 10.09%, and 6.90% for Bone Regency, Gowa Regency, and Wajo Regency, respectively. Regional Expenditures at the national level in the Fiscal Year of 2013 reached IDR707.083 trillion. Personnel Expenditures still took up a dominant portion, i.e. up to 41.9% or by IDR296.540 trillion. Capital Expenditures reached IDR175.578 trillion or 24.8%. Expenditures on Goods and Services reached IDR148.012 trillion or 20.9% and Miscellaneous Expenditures reached IDR86.952 trillion or 12.2%.

Humans as a resource are positioned as a subject and object at the same time, i.e. as human resources in both the microenvironment and macroenvironment. Human resources differ from other resources because humans react to the environment the most sensitive manner and often in a way that differs from an organization's expectation. Thus, the most crucial problem to fix within an organization is the quality of human resources. The reason is mainly because they play a strategic role as the executor of corporate functions, such as planning, organizing, staffing, leading and supervising (Riva, 2009). By improving the quality of human resources, it is expected that an organization will be able to survive and improve its performance. Moreover, in educational institutions, the quality of human resources is the key to organizational excellence and success.

1 In addition, the successful accomplishment of good regional finance is also resulted from
2 improvement in human capital which is evident from the indicators of the Human Development
3 Index (HDI), particularly in the field of education. The low rates of literacy and average length of
4 study contributed significantly to the low HDI of South Sulawesi. Regional governments need to
5 pay more attention by allocating a more significant budget for the eradication of illiteracy and
6 attempt to enhance public access to secondary and higher education. Illiteracy eradication efforts
7 need to be focused on women in the southern region of South Sulawesi, namely the regencies of
8 Jeneponto, Bantaeng, Takalar, and Gowa. As for attempts to increase the average length of study,
9 they need to be focused on regencies whose performance is far below the provincial mean,
10 namely the regencies of Bantaeng, Jeneponto, Wajo, and Takalar.

11 In addition to human capital, interactions among humans are resulted from social relations
12 which later manifest themselves as values and norms. These social systems are complex as they
13 are derived from a wide diversity of influences or constitute resulting impacts of a legacy and
14 thus human social systems are regarded as the true socio-cultural system. One obtains cultural
15 capital in a manner that has been formed and internalized in them since they are a kid, especially
16 through their upbringing and influences of their family environment. Thus, it can be said that
17 cultural capital is formed by a multidimensional social environment and education which the
18 concerned individual gets, both formal education and a legacy of their family.

19 The foregoing suggests the significance of the research, where it will be further investigated
20 whether human capital and cultural capital affect the financial condition of a region and whether
21 cultural capital has a mediating effect (mediator) on the effect of human capital on the financial
22 condition of a region. Moreover, this research also refines previous research by combining the
23 simultaneous effect of the variables Human Capital and Cultural Capital on the Financial
24 Condition of a Region and examining the mediating effect of the variable Cultural Capital.

2. THEORETICAL BACKGROUND

2.1. Human Capital

25 Human capital is presently perceived as a major growth engine that has a role of
26 encouraging and enhancing economic growth. The significant role of human capital in economic
27 growth has prompted a number of development economists to focus their research on the role of
28 human capital in economic growth and development. Their concern which previously focused on
29 the role of physical capital now put more emphasis on human capital. Rachbini (2002: 95) states
30 that the economic theory of capital and investments begins to change after it proves true that
31 human resources play a vital role and have a significant impact on economic development.

32 It was Schultz (1962) who firstly propounded the significant role of human capital in
33 economic development and growth by highlighting the importance of investments in human
34 capital. Before Schultz emphasized the significant role of the human factor in economic growth
35 and development, most economists focused their research on the role of physical capital and did
36 not consider human capital. The growth model used in each analysis tended to perceive human
37 capital as a factor which simply brings about an indirect effect on growth, where it is considered
38 part of the technical or residual progress.

39 Stockely (2003) defines human capital as an important and essential asset which contributes
40 to development and growth, just like physical capital such as machinery and other working
41 capital. Human attitudes, skills, and abilities contribute to productivity and performance of an
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1 organization. Spending on training, academic development, and support constitutes an
2 investment rather than an expense.
3

4 Human resources according to Ferna'ndez et al. (2000) refer to intangible resources, i.e.
5 those resources which are basically comprised of knowledge or information. Moreover, Hall
6 (1993) classifies human resources in two categories, namely dependent and independent human
7 resources. The first belongs to the system as a whole while the latter consists of three categories,
8 namely organizational capital, technological capital, and relational capital. Furthermore,
9 Ferna'ndez et al. (2000) state that these human resources in an organization may be either in the
10 form of Human Capital consisting of mastery of general and specific knowledge of a technical
11 nature or Organizational Capital, which includes organizational norms and procedures.
12

13
14 Krause (2011) in her research suggests that the budget that focuses on innovation
15 development and empowerment of human resources and local natural resources will generate
16 regional revenues. Likewise, Lubell et al. (2009) assert that the per capita income or income
17 generated by urban areas is determined by focused policies established by the government. On
18 the other hand, Sharp et al. (2011) reveal that involvement of several institutions to assist in
19 regional development can create a favorable investment climate, increase tax revenues of the
20 regional government, and eliminate tax pressure.
21

22 **2.2. Cultural Capital**

23
24 Bourdieu (1977: 183) defines cultural capital based on three dimensions, namely the
25 human dimensions manifested in the human body, objects of any form produced by humans, and
26 the institutional dimension, which particularly refers to education. The human dimensions of
27 cultural capital are comprised of:
28

- 29 1. *Embodied state*, i.e. the state of being embodied or taking a form of a human body or
30 completely merging with a human as a unity or in other words, being internalized in an
31 individual. According to Bourdieu, cultural capital cannot be created instantly. For example,
32 the rich do not always have to stay in a luxurious house with a clean, beautiful, and leafy
33 environment, but there are also rich people who live in a narrow alley with an environment
34 which is not as clean and beautiful as the first one.
35
- 36 2. *Objectified state*. The "object" dimension in cultural capital is termed the *objectified state*,
37 which is a state of being objectified or made into an object by humans (objectified in the
38 material form). There are elements which have gain social recognition and thus society will
39 have the same view and understanding. For example, jazz and Mozart (materials) are
40 commonly associated with a type of music of the upper middle class that consist of complex
41 and heavy rhythms.
42
- 43 3. *Institutionalized state*. As for the institutional dimension of cultural capital, it refers to a state
44 where those objects have already turned into a completely separate and independent entity,
45 which is shown in the education system. Thus, cultural capital refers to one's potential state
46 exchanged with money or other capital (legitimated by social institutions), like education
47 which is legitimated by schools (Lawang, 2004: 16-18).
48

49
50 Based on the three points above, it is clear that Bourdieu (1977) tries to unify individuals
51 and society. The first point emphasizes the role of individuals that cultural capital is derived from
52 internalization processes performed by individuals while in the second point, objectivity of
53 materials also has an effect. Thus, cultural capital is both objective and subjective in nature. In
54 this research, cultural capital refers to cultural values of society in South Sulawesi, namely
55 honesty (*alempureng*), intelligence (*amaccang*), decency (*asitinajang*), determination
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(*agetengeng*), hard work (*reso*), and shame/pride (*siri'*) (Abdulllah (1985), Abidin (2003), Abidin and Sabang (2003)).

2.3. Regional Finance

Regional Finance refers to any rights and obligations which a region has in the framework of regional governance that can be assessed using money which includes assets of any form which are associated with the rights and obligations of the region (Article 1 point 5 of the Governmental Regulation No. 58 of 2005). According to the definition of regional finance set out in the Governmental Regulation No. 58 of 2005, regional finance covers:

- a. rights of a region to collect regional taxes and levies and take out a loan.
- b. obligations of a region to administer regional governance and pay the bill to a third party.
- c. regional revenues
- d. regional expenditures
- e. regional assets both those which are self-managed and those managed by other parties in the forms of cash, securities, receivables, goods, and other rights that can be assessed using money, including separate assets in regional government-owned companies.
- f. assets of other parties controlled by the regional governments or for the public interest.

The definition and scope of regional finance have a quite significant meaning given the term and definition of regional finance are commonly used in numerous legislation so that whether a condition or an issue belongs to the regional government sphere or not is sometimes a matter for debate. Regional financial organizations consist of:

- a. holders of power to carry out financial management, i.e. the head of a region as the Head of the Regional Government
- b. a regional financial management coordinator occupied by the Regional Secretary.
- c. a Regional Financial Management Officer (PPKD) occupied by the Head of the Regional Financial (Asset) Management Agency or the financial department and also serving as a general treasurer.
- d. a Regional Budget/Asset User Authority occupied by the head of the Regional Apparatus Work Unit (SKPD). In each SKPD, there are:
 - 1) budget use authority
 - 2) technical implementing officer for activities carried out by SKPD
 - 3) financial administration officer for activities carried out by SKPD
 - 4) disbursing treasurer
 - 5) SKPD recipient treasurer in charge of managing the regional revenue budget

Tasks and authority of regional financial management based on the Governmental Regulation No. 58 of 2005 are:

- a. The holder of power to administer regional financial management, i.e. the regional head as the head of the regional government controls regional financial management and represents the regional government with regard to ownership of separate regional assets with the following authority:
 - 1) establishing policies on the implementation of the regional revenue and expenditure budget (APBD).
 - 2) establishing policies on management of regional assets
 - 3) appointing a budget/asset user authority
 - 4) appointing a recipient treasurer and a disbursing treasurer.

- 1 b. The regional financial management coordinator is in charge of the following tasks:
2
3 1) coordinating establishment and implementation of APBD and regional asset management.
4 2) making RAPBD and draft amendments to APBD
5 3) making amendments to APBD
6 4) held accountable for the implementation of APBD
7
- 8 c. The regional financial management officer
9 PPKD is in charge of:
10 1) making and implementing regional financial management policies.
11 2) making RAPBD and draft amendments to APBD
12 3) preparing regional financial statements as a form of accountability to APBD
13 implementation.
14 4) The Regional Budget/Asset User Authority
15
16 The regional budget/asset user authority is in charge of the following tasks:
17 1) preparing SKPD budget work plans
18 2) preparing implementation documents
19 3) managing accounts payable and receivable of the SKPD chaired by this authority
20 4) procurement of local assets
21
22 Procurement of goods is commonly undertaken in the following manners:
23 1) hiring goods/service providers (contracting partners)
24 2) manufacturing them on their own (self-management)
25 3) acquisition (grants or assistance)
26 4) exchanging
27 5) using and pilling
28
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31

32 2.4. Previous Research

33 Ranani and Zivar (2014) conducted research entitled *The Impact of Intellectual Capital*
34 *on the Financial Performance of Listed Companies in Tehran Stock Exchange*. This research
35 employed a survey method and panel regression as the analysis instrument. Findings of the
36 regression model suggest that cultural capital has a significantly positive effect on earnings per
37 share and asset efficiency. The structural capital such as other components of the intellectual
38 capital also has a significantly positive effect on asset efficiency. The research findings also show
39 that structural capital does not affect earnings per share. Results of the panel data approach taken
40 indicate a significant effect of cultural capital on earnings per share and asset effectiveness. In so
41 doing, it can be concluded that an increase in cultural capital will in turn enhance a company's
42 financial performance.
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45 Ciptaningsih, Tri (2013) examined the effect of cultural capital on the financial performance
46 of Indonesian State-Owned Enterprises (BUMN) which go public. The dependent variable used
47 in this research was the variable *Financial Performance*. The indicator used to measure this
48 variable was *Return On Assets (ROA)* = profit before tax/average total assets. As for the
49 independent variables, this research employed *VAIC (Value Added Intellectual Coefficient)*,
50 *Human Capital*, *SCE (Structural Capital Efficiency)*, and *CEE (Capital Employed Efficiency)*.
51 Based on the research analysis, it is revealed that human capital and physical capital affect
52 companies' financial performance with the presence of the variable *cultural capital*. This
53 suggests that the cultural capital plays a vital role in the financial performance of a company.
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Al-Zahrani, Abdullah Attia, and Almazar, Ahmad Aref (2011) conducted research entitled *The Impact of Affective Human Resources Management Practices on the Financial Performance of the Saudi Banks*. This research aimed to determine the impact of affective practices of human resource management on the financial performance in the Saudi bank. This research employed the method of regression analysis. The dependent variable was the Financial Performance of the Saudi Bank while the independent variable was human capital (selection and recruitment, training and development, performance appraisal, compensation systems, human resource planning, employee involvement, and job description). Research findings show a positive relationship between effective HRM practices with the financial performance of the Saudi Bank (FPSB) as well as between Job Description (JD), Performance Appraisal (PA), Compensation Systems (CS) and Human Resource Planning (HRP) with the financial performance of the Saudi Bank (FPSB).

3. MATERIAL AND METHOD

Research was conducted at the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province with a total population of up to 630. The sample was chosen using the method of purposive random sampling, which is the method of sample collection carried out based on specific objectives and there were 120 samples of SKPD obtained. The types of data employed consisted of primary data and secondary data gathered by conducting interviews and distributing questionnaires as data collection techniques. To measure research variables, questionnaires were distributed to respondents. Each answer given got a score based on a 5-point Likert Scale, ranging from *strongly agree* (5) to *strongly disagree* (1). In this research, the analysis was undertaken using the quantitative method, i.e. the inferential statistical analysis using the method of variance-based Structural Equation Modeling (SEM) known as Partial Least Squares Structural Equation Modeling (PLS-SEM) with research hypotheses as illustrated in the following conceptual diagram:

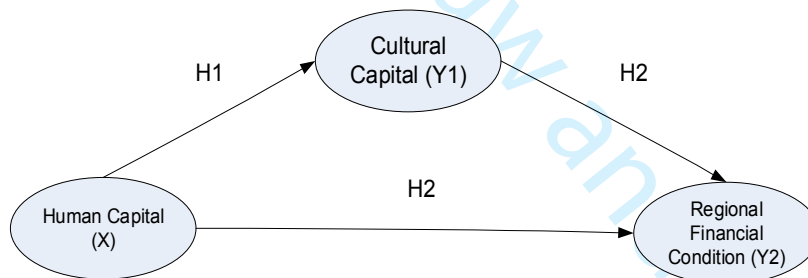


Figure 1: Conceptual Framework

4. RESULT AND DISCUSSION

4.1. Goodness of Fit

The model in this study is said to be fit if supported by empirical data. As it is known that the Goodness of Fit the structural model in the form of SEM-relevance predictive value (Q^2) which is calculated based on the value of R^2 each endogenous variable. Rated R for each dependent variable can be seen in Table 1.

Table 1. R-Square

Variable	R-Square
Cultural capital	0.656
Regions Financial Condition	0.594
Predictive-relevance (Q^2)	0.860

Based on Table 1 it can be seen that the value of Predictive-relevance (Q2) of 0.860 or 86.0%. This means that the model can be explained by variables associated by 86.0% while the remaining 14.0% is explained by other variables outside the model.

4.2. Measurement Model

The first variable is the Capital of Human Resources (X1). This variable is measured by three indicators. In Table 2 are presented the results of the model variable outer Capital Human Resources (X1).

Table 2. Results Outer Model on Variable Capital Human Resources (X1)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t-statistical</i>	<i>p-value</i>
X _{1,1} = Special competence	0.796	16.703	0.000
X _{1,2} = Work experience	0.841	14.254	0.000
X _{1,3} = skills	0.829	18.873	0.000

From Table 2, the result of measurement outer models in the variable Capital Human Resources (X1) is measured by three indicators of the measuring values of t-statistics > 1.96 and p-value of < 0.05, thus these three indicators were significant measure variables Capital Human Resources (X1). Of these three indicators, it appears that the second indicator that work experience is an indicator of the dominant measure variables Capital Human Resources (X1).

The second variable is the Cultural Capital (Y1). This variable was measured using six indicators. Here is presented the results of the model outer Cultural Capital variable (Y1) in Table 3 below.

Table 3. The results of the Model Outer Cultural Capital Variable (Y1)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t-statistical</i>	<i>p-value</i>
Y _{1,1} = Honesty (<i>Allempureng</i>)	0.808	17.285	0.000
Y _{1,2} = intellectualisation (<i>Amaccang</i>)	0.826	17.813	0.000
Y _{1,3} = decency (<i>Asitinajang</i>)	0.669	8.078	0.000
Y _{1,4} = firmness (<i>Agettengeng</i>)	0.499	2.468	0.014
Y _{1,5} = attempted (<i>Reso</i>)	0.807	15.554	0.000
Y _{1,6} = Shame, Self-Esteem (<i>Siri'</i>)	0.776	14.907	0.000

From Table 3, the result of measurement model on the outer Cultural Capital variable (Y1) was measured by six indicators. Seen that all six indicators pengukurannya have a t-statistic values > 1.96 and p-value of < 0.05, thus the sixth significant indicator measuring the Cultural Capital (Y1). Of the six indicators, namely intellectualisation second visible indicator (*Amaccang*) is the dominant indicator measuring the Cultural Capital variable (Y1).

The third variable is the Regional Financial Condition (Y2). This variable was measured using three dimensions Environmental Governance, Institutional and Finance, with a total of twelve indicators. In Table 4 are presented the results of the model variable outer Regional Financial Condition (Y2).

Table 4. Results Outer Variable Model on Regional Financial Condition (Y2)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t-statistical</i>	<i>p-value</i>
Y _{2,1} = Dimensi Lingkungan Pemerintahan	0.852	22.692	0.000
Y _{2,1.1} = Community needs	0.771	15.582	0.000
Y _{2,1.2} = Population	0.779	13.932	0.000

1	Y _{2.1.3} = Property Values	0.835	23.400	0.000
2	Y _{2.1.4} = Inflation	0.739	11.894	0.000
3	Y _{2.1.5} = income Individuals	0.770	16.040	0.000
4	Y _{2.1.6} = Unemployment	0.696	10.853	0.000
5	<hr/>			
6	Y _{2.2} = Institutional dimensions	0.847	24.980	0.000
7	Y _{2.2.1} = Availability of Budget	0.869	42.778	0.000
8	Y _{2.2.2} = Timeliness and accuracy of financial transactions	0.850	28.603	0.000
9	Y _{2.2.3} = The quality and timeliness of financial reporting	0.826	23.477	0.000
10	<hr/>			
11	Y _{2.3} = Financial Dimensions	0.773	19.375	0.000
12	Y _{2.3.1} = Limits Debt	0.836	23.475	0.000
13	Y _{2.3.2} = Potential Tax	0.831	17.492	0.000
14	Y _{2.3.3} = Legal Expenses	0.844	25.474	0.000
15	<hr/>			

From Table 3, the results obtained in the variable measurement models outer Regional Financial Condition (Y2) is measured by three dimensions namely Environmental Governance (Y2.1), Institutional (Y2.2) and Finance (Y2.3). Of all three dimensions, a significant measure of Regional Financial Condition (Y2), because the t-statistic values > 1.96 and p-value of <0.05, with dimensions of Environment Government more dominant than the dimensions of Institutional and financial dimension, because it has the outer loading higher.

On the dimension of Environmental Governance (Y2.1), six indicators pengukurannya have a t-statistic values > 1.96 and p-value of <0.05, thus the sixth significant indicator measures the Government Environment. Of the six indicators, it appears that the third indicator that property value is the dominant indicator measures the dimensions of the Environment Administration.

On Institutional dimension (Y2.2), three indicators pengukurannya have t-statistic values > 1.96 and p-value of <0.05, thus these three indicators Institutional significant measure. Of these three indicators, it appears that the first indicator is availability Budget is the dominant indicator measures the institutional dimension.

On the dimension of Finance (Y2.3), three indicators pengukurannya have t-statistic values > 1.96 and p-value of <0.05, thus these three indicators were significant measure of Finance. Of these three indicators, it appears that all three indicators, namely legality of expenditure is the dominant indicator measures the dimensions of Finance.

4.3. Analysis SEM

Structural model presents the relationship between the study variables Coefficient structural model of stating the magnitude relationship between the variable to another variable. There is significant influence between variables one to another variable, if the value of P-value of <0.05. In the SEM are two influences that direct effect (direct effect), as well as the mediating effect (effect is not direct / indirect effect). The results of the analysis are summarized in Table 5 for the direct effect and Table 6 for the indirect effect.

Table 5. Structural Model SEM Results: Direct Impact

No	Relationship	Coeffisient	P-value	Conclusion
1	Capital Human Resources (X) to the Capital of Culture (Y1)	0.432	0.000	Significant
2	Capital Human Resources (X) of the Regional Financial Condition (Y2)	0.101	0.177	Not Significant
3	Cultural Capital (Y1) of the Regional Financial Condition (Y2)	0.537	0.000	Significant

Graphically presented as follows:

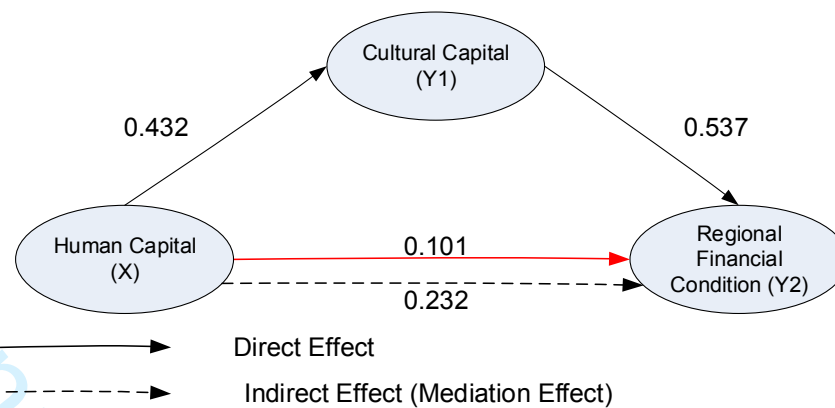


Figure 2: Structural Model SEM Results

Based on Table 3 and Figure 2, can be presented structural model test results as follows:

1. Effect of Capital Human Resources (X) to the Capital of Culture (Y1), structural coefficient obtained for 0.432, and a P-value of 0.000. Because the P-value of <0.05, and the coefficient is positive, indicating that there is significant and positive between Capital Human Resources (X) to the Capital of Culture (Y1). The higher the Capital of Human Resources (X), would lead to higher the Cultural Capital (Y1).
2. Effect of Capital Human Resources (X) of the Regional Financial Condition (Y2), structural coefficient obtained for 0.101, and a P-value of 0.177. Because the P-value > 0.05, indicating that there is no significant relationship between Capital Human Resources (X) of the Regional Financial Condition (Y2). That is, the level of Capital Human Resources (X), would not result in high and low of the Regional Financial Condition (Y2).
3. Effect of Cultural Capital (Y1) of the Regional Financial Condition (Y2), structural coefficient obtained for 0.537, and a P-value of 0.000. Because the P-value of <0.05, and the coefficient is positive, indicating that there is significant and positive between the Capital of Culture (Y1) of the Regional Financial Condition (Y2). The higher the Cultural Capital (Y1), will lead the higher the Regional Financial Condition (Y2).

Testing mediation obtained from several study directly influence the form of mediation. Here is presented the test results of mediation by using Sobel test:

Table 6. Structural Model Mediation SEM Results

<i>Mediation</i>	<i>Influence Tested</i>	<i>Coeffisient</i>	<i>CR</i>	<i>P-value</i>
Y1	X1 to Y2	0.232	3.166	0.009

A. Mediation Effect On Effect of Capital Cultural Capital of Human Resources of the Regional Financial Condition

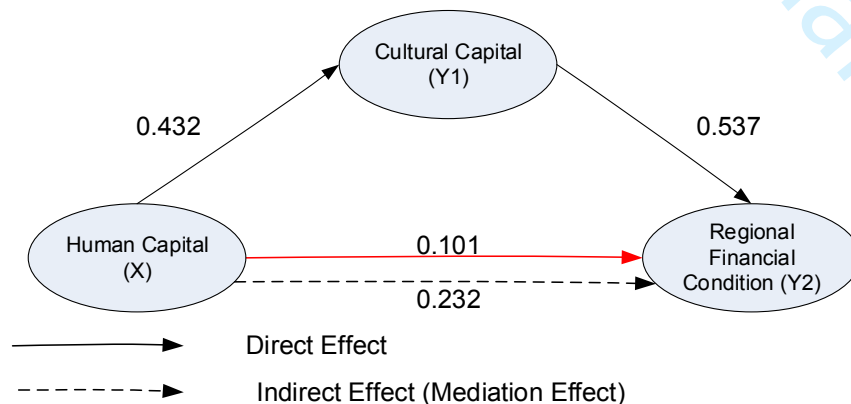


Figure 3. Mediation Effect On Effect of Capital Cultural Capital of Human Resources of the Regional Financial Condition

Test Results Sobel in Table 4 and Figure 3 shows that the coefficient of Indirect Influence by 0.232, and the value of CR for 3.166 > 1.96 and P-value of 0.009 > 0.05 indicates that the Capital of Culture (Y1) mediates the effect of the Capital of Human Resources to Financial Condition Region (Y2). Given the marked positive coefficient indicates that the higher the Capital of Human Resources will lead to higher the Regional Financial Condition (Y2), if mediated Cultural Capital (Y1) were also higher. With demikian, Cultural Capital (Y1) as a variable pemediasi relationship between the Capital of Human Resources of the Regional Financial Condition (Y2).

Analysis results show that human capital has a positive effect on cultural capital. If associated with the outer loading results above, the higher the Human Capital, as reflected particularly in the work experience, the higher the Cultural Capital in the work area of regional governments of South Sulawesi Province is, as indicated by the high level of intelligence. This implies that if employees are capable of using their work experience in the form of abilities to improve knowledge and information, this will be a good start or will be good enough to adapt to enormous human resources that are found in SKPD of the Regional Governments in South Sulawesi Province and thus, employees will be very capable of inspiring based on the disaster suffered or providing inspiration for the formulation of a policy which will benefit SKPD.

These research findings are consistent with the theory of cultural capital (Bourdieu, 1977) that the determining factor of cultural capital is human capital, and the theory of intellectual capital proposed by Bontis (2001) that capital in the form of employees (human capital) is strongly correlated with structural capital which include cultural capital therein. In this research, cultural capital refers to cultural values of society in South Sulawesi, namely honesty (*alempureng*), intelligence (*amaccang*), decency (*asitinajang*), determination (*agetengeng*), hard work (*reso*), and shame/pride (*siri*)

Moreover, the research findings also show that human capital does not directly affect regional financial conditions. This means the extent of human capital will not directly affect the condition of regional finance. These findings are contrary to the findings stating that human capital directly affects the condition of regional finance as suggested by Ahangar (2010), Bosma, Niels, (2002), Almazar and Aref (2011). However, they support the findings of the research by Kamukama, Ahiauzu, and Ntayi (2010) that human capital does not affect the financial performance of small-scale industries in Uganda.

Furthermore, the analysis results reveal that cultural capital affects regional financial conditions. The higher the cultural capital that is reflected in the understanding of government employees, particularly intelligence (*amaccang*), the better the condition of regional finance as reflected in the significant aspects of governance areas, especially the ability to meet the property value.

These research findings reinforce findings of previous research such as Ekowati (2010), Porter (2003), Rider, Bruns, and Spier (2005) that the higher the cultural capital is, the better the financial condition of a region is. These findings also support the theory of legitimacy that in the event cultural capital is maintained, this will improve the financial condition of a region, as well as the Agency Theory that society equipped with physical capital and who serve as the principal

1 will require accountability of the government as the agent to assess the condition of regional
2 finance.
3

4 Analysis results show that human capital indirectly affects regional financial conditions
5 through the mediation of cultural capital. If associated with the outer loading results above, the
6 higher the Human Capital, as reflected particularly in the work experience, the better the regional
7 financial conditions are as reflected in the significant aspects of governance areas, especially the
8 ability to meet the property value, if supported by high cultural capital in the work area of
9 regional governments of South Sulawesi Province, as indicated by the high level of intelligence.
10 These research findings support findings of the research by Winarno, (2013), Chan, et al. (2006),
11 Dakhli and de Clercq (2004), Jardon and Loureiro, (2013), Ciptaningsih. (2013) which shows the
12 existence of a mediating variable which mediates the effect of human capital on regional
13 financial conditions.
14
15
16
17

18 **5. CONCLUSIONS AND RECCOMENDATIONS**

19 Based on the analysis, we can conclude that human capital has positive influence on cultural
20 capital. The higher the human capital, primarily reflected in the work experience, will result in
21 increasing the capital of culture in the working environment of local government in the province
22 of South Sulawesi. However, it does not directly affect the financial condition of the area. Similar
23 results were found in the influence of the cultural capital of the regional financial condition and
24 significant positive effect so that the higher the cultural capital will affect the financial condition
25 of the higher regions. In addition, it was found that the indirect result of human capital affect the
26 financial condition of the area through the intermediary of the cultural capital. In other words, it
27 was found mediating effect on the influence of human capital on the financial condition of the
28 area.
29

30 Based on the analysis research, regional governments are advised to take improved
31 human resource-oriented policies (particularly improved skill/experience of the employees).
32 Moreover, it is recommended that future research engage the general public or stakeholders as
33 respondents in order to obtain more comprehensive results.
34

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The effect of human capital on regional financial conditions through cultural capital of employees

Abstract:

Purpose: This research will discuss about whether human capital and cultural capital affect the financial condition of a region and whether cultural capital has a mediating effect (mediator) on the effect of human capital on the financial condition of a region. Moreover, this research also refines previous research by combining the simultaneous effect of the variables Human Capital and Cultural Capital on the Financial Condition of a Region and examining the mediating effect of the variable Cultural Capital.

Methodology: Research was conducted at the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province with a total population of up to 630. The inferential statistical analysis using the method of variance-based Structural Equation Modeling (SEM) known as Partial Least Squares Structural Equation Modeling (PLS-SEM).

Finding: Human capital has positive influence on cultural capital. The higher the human capital, primarily reflected in the work experience, will result in increasing the capital of culture in the working environment of local government in the province of South Sulawesi.

Originality: Originality of this paper shows: (1) an inferential method used in this research is a Structural Equation Modeling (SEM) (2) the location of the research located in of the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province, Indonesia, Indonesia which there hasn't been research by the methods and the same location.

Keywords: Human capital, Cultural capital, Regional Financial, SEM

1. INTRODUCTION

The regional autonomy policy is essentially aimed at promoting the capacity of local governments to provide public services in a more effective and efficient manner. Closeness with government organizations at the regional level is expected to help collect real aspirations of the public with regard to what services they need. Therefore, it is expected that input will be obtained in an attempt to plan development in order to eliminate the gap between the development planning carried out by the government, including both the program and the budget, and the real needs of the public.

Among the keys to a successful regional autonomy policy as reflected from the successful administration or regional government organizations is inseparable from the quality of services these regional governments give to the public. Public services can be delivered on an effective and efficient basis by regional governments if their financial condition is good or healthy. The term financial condition according to Dinapoli (2011: 2) refers to a financial condition defined based on the ability of regional governments to balance between revenues and expenditures by still maintaining the quality of services provided to the public. While according to Kamnikar (2006), the financial condition of a government is defined as the ability of the government to fulfill its obligation to serve its constituency in a sustainable manner. Furthermore, the Public Sector Accounting Board (2007) defines it based on the government's ability to meet its financial obligations and commitment to serve the public, creditors, employees, and others.

Based on several definitions of the term financial condition above, it can be concluded that a financial condition refers to the ability of regional or regency/city governments to balance between necessary expenditures and sources of revenues, while providing services in a sustainable manner. According to Dinapoli (2011), a group of people with a good financial condition is always served pretty well if such a financial condition is comprised of three factors, namely environmental factors, institutional factors, and financial factors.

The financial condition of a region is reflected in the dependence level of the regional government on the central government, which is still fairly high in South Sulawesi. This is indicated by a number of regions, namely Makassar City, Bone Regency, Gowa Regency, and Wajo Regency, in which their revenues were fairly high despite their relatively low Regionally-Generated Revenue (PAD), i.e. by 6.17%, 10.09%, and 6.90% for Bone Regency, Gowa Regency, and Wajo Regency, respectively. Regional Expenditures at the national level in the Fiscal Year of 2013 reached IDR707.083 trillion. Personnel Expenditures still took up a dominant portion, i.e. up to 41.9% or by IDR296.540 trillion. Capital Expenditures reached IDR175.578 trillion or 24.8%. Expenditures on Goods and Services reached IDR148.012 trillion or 20.9% and Miscellaneous Expenditures reached IDR86.952 trillion or 12.2%.

Humans as a resource are positioned as a subject and object at the same time, i.e. as human resources in both the microenvironment and macroenvironment. Human resources differ from other resources because humans react to the environment the most sensitive manner and often in a way that differs from an organization's expectation. Thus, the most crucial problem to fix within an organization is the quality of human resources. The reason is mainly because they play a strategic role as the executor of corporate functions, such as planning, organizing, staffing, leading and supervising (Riva, 2009). By improving the quality of human resources, it is expected that an organization will be able to survive and improve its performance. Moreover, in educational institutions, the quality of human resources is the key to organizational excellence and success.

In addition, the successful accomplishment of good regional finance is also resulted from improvement in human capital which is evident from the indicators of the Human Development Index (HDI), particularly in the field of education. The low rates of literacy and average length of study contributed significantly to the low HDI of South Sulawesi. Regional governments need to pay more attention by allocating a more significant budget for the eradication of illiteracy and attempt to enhance public access to secondary and higher education. Illiteracy eradication efforts need to be focused on women in the southern region of South Sulawesi, namely the regencies of Jeneponto, Bantaeng, Takalar, and Gowa. As for attempts to increase the average length of study, they need to be focused on regencies whose performance is far below the provincial mean, namely the regencies of Bantaeng, Jeneponto, Wajo, and Takalar.

In addition to human capital, interactions among humans are resulted from social relations which later manifest themselves as values and norms. These social systems are complex as they are derived from a wide diversity of influences or constitute resulting impacts of a legacy and thus human social systems are regarded as the true socio-cultural system. One obtains cultural capital in a manner that has been formed and internalized in them since they are a kid, especially through their upbringing and influences of their family environment. Thus, it can be said that cultural capital is formed by a multidimensional social environment and education which the concerned individual gets, both formal education and a legacy of their family.

The foregoing suggests the significance of the research, where it will be further investigated whether human capital and cultural capital affect the financial condition of a region and whether cultural capital has a mediating effect (mediator) on the effect of human capital on the financial condition of a region. Moreover, this research also refines previous research by combining the simultaneous effect of the variables Human Capital and Cultural Capital on the Financial Condition of a Region and examining the mediating effect of the variable Cultural Capital.

2. THEORETICAL BACKGROUND

2.1. Human Capital

Human capital is presently perceived as a major growth engine that has a role of encouraging and enhancing economic growth. The significant role of human capital in economic growth has prompted a number of development economists to focus their research on the role of human capital in economic growth and development. Their concern which previously focused on the role of physical capital now put more emphasis on human capital. Rachbini (2002: 95) states that the economic theory of capital and investments begins to change after it proves true that human resources play a vital role and have a significant impact on economic development.

It was Schultz (1962) who firstly propounded the significant role of human capital in economic development and growth by highlighting the importance of investments in human capital. Before Schultz emphasized the significant role of the human factor in economic growth and development, most economists focused their research on the role of physical capital and did not consider human capital. The growth model used in each analysis tended to perceive human capital as a factor which simply brings about an indirect effect on growth, where it is considered part of the technical or residual progress.

Stockely (2003) defines human capital as an important and essential asset which contributes to development and growth, just like physical capital such as machinery and other working capital. Human attitudes, skills, and abilities contribute to productivity and performance of an

organization. Spending on training, academic development, and support constitutes an investment rather than an expense.

Human resources according to Ferna'ndez et al. (2000) refer to intangible resources, i.e. those resources which are basically comprised of knowledge or information. Moreover, Hall (1993) classifies human resources in two categories, namely dependent and independent human resources. The first belongs to the system as a whole while the latter consists of three categories, namely organizational capital, technological capital, and relational capital. Furthermore, Ferna'ndez et al. (2000) state that these human resources in an organization may be either in the form of Human Capital consisting of mastery of general and specific knowledge of a technical nature or Organizational Capital, which includes organizational norms and procedures.

Krause (2011) in her research suggests that the budget that focuses on innovation development and empowerment of human resources and local natural resources will generate regional revenues. Likewise, Lubell et al. (2009) assert that the per capita income or income generated by urban areas is determined by focused policies established by the government. On the other hand, Sharp et al. (2011) reveal that involvement of several institutions to assist in regional development can create a favorable investment climate, increase tax revenues of the regional government, and eliminate tax pressure.

2.2. Cultural Capital

Bourdieu (1977: 183) defines cultural capital based on three dimensions, namely the human dimensions manifested in the human body, objects of any form produced by humans, and the institutional dimension, which particularly refers to education. The human dimensions of cultural capital are comprised of:

1. *Embodied state*, i.e. the state of being embodied or taking a form of a human body or completely merging with a human as a unity or in other words, being internalized in an individual. According to Bourdieu, cultural capital cannot be created instantly. For example, the rich do not always have to stay in a luxurious house with a clean, beautiful, and leafy environment, but there are also rich people who live in a narrow alley with an environment which is not as clean and beautiful as the first one.
2. *Objectified state*. The "object" dimension in cultural capital is termed the *objectified state*, which is a state of being objectified or made into an object by humans (objectified in the material form). There are elements which have gain social recognition and thus society will have the same view and understanding. For example, jazz and Mozart (materials) are commonly associated with a type of music of the upper middle class that consist of complex and heavy rhythms.
3. *Institutionalized state*. As for the institutional dimension of cultural capital, it refers to a state where those objects have already turned into a completely separate and independent entity, which is shown in the education system. Thus, cultural capital refers to one's potential state exchanged with money or other capital (legitimated by social institutions), like education which is legitimated by schools (Lawang, 2004: 16-18).

Based on the three points above, it is clear that Bourdieu (1977) tries to unify individuals and society. The first point emphasizes the role of individuals that cultural capital is derived from internalization processes performed by individuals while in the second point, objectivity of materials also has an effect. Thus, cultural capital is both objective and subjective in nature. In this research, cultural capital refers to cultural values of society in South Sulawesi, namely honesty (*alempureng*), intelligence (*amaccang*), decency (*asitinajang*), determination

(*agettengeng*), hard work (*reso*), and shame/pride (*siri'*) (Abdulllah (1985), Abidin (2003), Abidin and Sabang (2003)).

2.3. Regional Finance

Regional Finance refers to any rights and obligations which a region has in the framework of regional governance that can be assessed using money which includes assets of any form which are associated with the rights and obligations of the region (Article 1 point 5 of the Governmental Regulation No. 58 of 2005). According to the definition of regional finance set out in the Governmental Regulation No. 58 of 2005, regional finance covers:

- a. rights of a region to collect regional taxes and levies and take out a loan.
- b. obligations of a region to administer regional governance and pay the bill to a third party.
- c. regional revenues
- d. regional expenditures
- e. regional assets both those which are self-managed and those managed by other parties in the forms of cash, securities, receivables, goods, and other rights that can be assessed using money, including separate assets in regional government-owned companies.
- f. assets of other parties controlled by the regional governments or for the public interest.

The definition and scope of regional finance have a quite significant meaning given the term and definition of regional finance are commonly used in numerous legislation so that whether a condition or an issue belongs to the regional government sphere or not is sometimes a matter for debate. Regional financial organizations consist of:

- a. holders of power to carry out financial management, i.e. the head of a region as the Head of the Regional Government
- b. a regional financial management coordinator occupied by the Regional Secretary.
- c. a Regional Financial Management Officer (PPKD) occupied by the Head of the Regional Financial (Asset) Management Agency or the financial department and also serving as a general treasurer.
- d. a Regional Budget/Asset User Authority occupied by the head of the Regional Apparatus Work Unit (SKPD). In each SKPD, there are:
 - 1) budget use authority
 - 2) technical implementing officer for activities carried out by SKPD
 - 3) financial administration officer for activities carried out by SKPD
 - 4) disbursing treasurer
 - 5) SKPD recipient treasurer in charge of managing the regional revenue budget

Tasks and authority of regional financial management based on the Governmental Regulation No. 58 of 2005 are:

- a. The holder of power to administer regional financial management, i.e. the regional head as the head of the regional government controls regional financial management and represents the regional government with regard to ownership of separate regional assets with the following authority:
 - 1) establishing policies on the implementation of the regional revenue and expenditure budget (APBD).
 - 2) establishing policies on management of regional assets
 - 3) appointing a budget/asset user authority
 - 4) appointing a recipient treasurer and a disbursing treasurer.

- b. The regional financial management coordinator is in charge of the following tasks:
 - 1) coordinating establishment and implementation of APBD and regional asset management.
 - 2) making RAPBD and draft amendments to APBD
 - 3) making amendments to APBD
 - 4) held accountable for the implementation of APBD
- c. The regional financial management officer PPKD is in charge of:
 - 1) making and implementing regional financial management policies.
 - 2) making RAPBD and draft amendments to APBD
 - 3) preparing regional financial statements as a form of accountability to APBD implementation.
 - 4) The Regional Budget/Asset User Authority

The regional budget/asset user authority is in charge of the following tasks:

 - 1) preparing SKPD budget work plans
 - 2) preparing implementation documents
 - 3) managing accounts payable and receivable of the SKPD chaired by this authority
 - 4) procurement of local assets

Procurement of goods is commonly undertaken in the following manners:

 - 1) hiring goods/service providers (contracting partners)
 - 2) manufacturing them on their own (self-management)
 - 3) acquisition (grants or assistance)
 - 4) exchanging
 - 5) using and pilling

2.4. Previous Research

Ranani and Zivar (2014) conducted research entitled *The Impact of Intellectual Capital on the Financial Performance of Listed Companies in Tehran Stock Exchange*. This research employed a survey method and panel regression as the analysis instrument. Findings of the regression model suggest that cultural capital has a significantly positive effect on earnings per share and asset efficiency. The structural capital such as other components of the intellectual capital also has a significantly positive effect on asset efficiency. The research findings also show that structural capital does not affect earnings per share. Results of the panel data approach taken indicate a significant effect of cultural capital on earnings per share and asset effectiveness. In so doing, it can be concluded that an increase in cultural capital will in turn enhance a company's financial performance.

Ciptaningsih, Tri (2013) examined the effect of cultural capital on the financial performance of Indonesian State-Owned Enterprises (BUMN) which go public. The dependent variable used in this research was the variable *Financial Performance*. The indicator used to measure this variable was *Return On Assets (ROA)* = profit before tax/average total assets. As for the independent variables, this research employed *VAIC (Value Added Intellectual Coefficient)*, *Human Capital*, *SCE (Structural Capital Efficiency)*, and *CEE (Capital Employed Efficiency)*. Based on the research analysis, it is revealed that human capital and physical capital affect companies' financial performance with the presence of the variable *cultural capital*. This suggests that the cultural capital plays a vital role in the financial performance of a company.

Al-Zahrani, Abdullah Attia, and Almazar, Ahmad Aref (2011) conducted research entitled *The Impact of Affective Human Resources Management Practices on the Financial Performance of the Saudi Banks*. This research aimed to determine the impact of affective practices of human resource management on the financial performance in the Saudi bank. This research employed the method of regression analysis. The dependent variable was the Financial Performance of the Saudi Bank while the independent variable was human capital (selection and recruitment, training and development, performance appraisal, compensation systems, human resource planning, employee involvement, and job description). Research findings show a positive relationship between effective HRM practices with the financial performance of the Saudi Bank (FPSB) as well as between Job Description (JD), Performance Appraisal (PA), Compensation Systems (CS) and Human Resource Planning (HRP) with the financial performance of the Saudi Bank (FPSB).

3. MATERIAL AND METHOD

Research was conducted at the Regional Apparatus Work Unit (SKPD) in the Area of South Sulawesi Province with a total population of up to 630. The sample was chosen using the method of purposive random sampling, which is the method of sample collection carried out based on specific objectives and there were 120 samples of SKPD obtained. The types of data employed consisted of primary data and secondary data gathered by conducting interviews and distributing questionnaires as data collection techniques. To measure research variables, questionnaires were distributed to respondents. Each answer given got a score based on a 5-point Likert Scale, ranging from *strongly agree* (5) to *strongly disagree* (1). In this research, the analysis was undertaken using the quantitative method, i.e. the inferential statistical analysis using the method of variance-based Structural Equation Modeling (SEM) known as Partial Least Squares Structural Equation Modeling (PLS-SEM) with research hypotheses as illustrated in the following conceptual diagram:

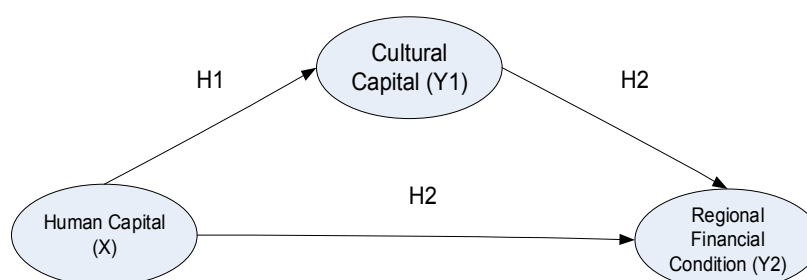


Figure 1: Conceptual Framework

4. RESULT AND DISCUSSION

4.1. Goodness of Fit

The model in this study is said to be fit if supported by empirical data. As it is known that the Goodness of Fit the structural model in the form of SEM-relevance predictive value (Q^2) which is calculated based on the value of R^2 each endogenous variable. Rated R for each dependent variable can be seen in Table 1.

Table 1. R-Square

<i>Variable</i>	<i>R-Square</i>
Cultural capital	0.656
Regions Financial Condition	0.594
<i>Predictive-relevance (Q^2)</i>	0.860

Based on Table 1 it can be seen that the value of Predictive-relevance (Q2) of 0.860 or 86.0%. This means that the model can be explained by variables associated by 86.0% while the remaining 14.0% is explained by other variables outside the model.

4.2. Measurement Model

The first variable is the Capital of Human Resources (X1). This variable is measured by three indicators. In Table 2 are presented the results of the model variable outer Capital Human Resources (X1).

Table 2. Results Outer Model on Variable Capital Human Resources (X1)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t-statistical</i>	<i>p-value</i>
X _{1,1} = Special competence	0.796	16.703	0.000
X _{1,2} = Work experience	0.841	14.254	0.000
X _{1,3} = skills	0.829	18.873	0.000

From Table 2, the result of measurement outer models in the variable Capital Human Resources (X1) is measured by three indicators of the measuring values of t-statistics > 1.96 and p-value of < 0.05, thus these three indicators were significant measure variables Capital Human Resources (X1). Of these three indicators, it appears that the second indicator that work experience is an indicator of the dominant measure variables Capital Human Resources (X1).

The second variable is the Cultural Capital (Y1). This variable was measured using six indicators. Here is presented the results of the model outer Cultural Capital variable (Y1) in Table 3 below.

Table 3. The results of the Model Outer Cultural Capital Variable (Y1)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t- statistical</i>	<i>p-value</i>
Y _{1,1} = Honesty (<i>Allempureng</i>)	0.808	17.285	0.000
Y _{1,2} = intellectualisation (<i>Amaccang</i>)	0.826	17.813	0.000
Y _{1,3} = decency (<i>Asitinajang</i>)	0.669	8.078	0.000
Y _{1,4} = firmness (<i>Agettengeng</i>)	0.499	2.468	0.014
Y _{1,5} = attempted (<i>Reso</i>)	0.807	15.554	0.000
Y _{1,6} = Shame, Self-Esteem (<i>Siri</i>)	0.776	14.907	0.000

From Table 3, the result of measurement model on the outer Cultural Capital variable (Y1) was measured by six indicators. Seen that all six indicators pengukurnya have a t-statistic values > 1.96 and p-value of < 0.05, thus the sixth significant indicator measuring the Cultural Capital (Y1). Of the six indicators, namely intellectualisation second visible indicator (*Amaccang*) is the dominant indicator measuring the Cultural Capital variable (Y1).

The third variable is the Regional Financial Condition (Y2). This variable was measured using three dimensions Environmental Governance, Institutional and Finance, with a total of twelve indicators. In Table 4 are presented the results of the model variable outer Regional Financial Condition (Y2).

Table 4. Results Outer Variable Model on Regional Financial Condition (Y2)

<i>Dimensions and Indicators</i>	<i>Outer Loading</i>	<i>t-statistical</i>	<i>p-value</i>
Y _{2,1} = Dimensi Lingkungan Pemerintahan	0.852	22.692	0.000
Y _{2,1,1} = Community needs	0.771	15.582	0.000
Y _{2,1,2} = Population	0.779	13.932	0.000

Y _{2.1.3} = Property Values	0.835	23.400	0.000
Y _{2.1.4} = Inflation	0.739	11.894	0.000
Y _{2.1.5} = income Individuals	0.770	16.040	0.000
Y _{2.1.6} = Unemployment	0.696	10.853	0.000
Y _{2.2} = Institutional dimensions	0.847	24.980	0.000
Y _{2.2.1} = Availability of Budget	0.869	42.778	0.000
Y _{2.2.2} = Timeliness and accuracy of financial transactions	0.850	28.603	0.000
Y _{2.2.3} = The quality and timeliness of financial reporting	0.826	23.477	0.000
Y _{2.3} = Financial Dimensions	0.773	19.375	0.000
Y _{2.3.1} = Limits Debt	0.836	23.475	0.000
Y _{2.3.2} = Potential Tax	0.831	17.492	0.000
Y _{2.3.3} = Legal Expenses	0.844	25.474	0.000

From Table 3, the results obtained in the variable measurement models outer Regional Financial Condition (Y2) is measured by three dimensions namely Environmental Governance (Y2.1), Institutional (Y2.2) and Finance (Y2.3). Of all three dimensions, a significant measure of Regional Financial Condition (Y2), because the t-statistic values > 1.96 and p-value of <0.05, with dimensions of Environment Government more dominant than the dimensions of Institutional and financial dimension, because it has the outer loading higher.

On the dimension of Environmental Governance (Y2.1), six indicators pengukurannya have a t-statistic values > 1.96 and p-value of <0.05, thus the sixth significant indicator measures the Government Environment. Of the six indicators, it appears that the third indicator that property value is the dominant indicator measures the dimensions of the Environment Administration.

On Institutional dimension (Y2.2), three indicators pengukurannya have t-statistic values > 1.96 and p-value of <0.05, thus these three indicators Institutional significant measure. Of these three indicators, it appears that the first indicator is availability Budget is the dominant indicator measures the institutional dimension.

On the dimension of Finance (Y2.3), three indicators pengukurannya have t-statistic values > 1.96 and p-value of <0.05, thus these three indicators were significant measure of Finance. Of these three indicators, it appears that all three indicators, namely legality of expenditure is the dominant indicator measures the dimensions of Finance.

4.3. Analysis SEM

Structural model presents the relationship between the study variables Coefficient structural model of stating the magnitude relationship between the variable to another variable. There is significant influence between variables one to another variable, if the value of P-value of <0.05. In the SEM are two influences that direct effect (direct effect), as well as the mediating effect (effect is not direct / indirect effect). The results of the analysis are summarized in Table 5 for the direct effect and Table 6 for the indirect effect.

Table 5. Structural Model SEM Results: Direct Impact

No	Relationship	Coeffisient	P-value	Conclusion
1	Capital Human Resources (X) to the Capital of Culture (Y1)	0.432	0.000	Significant
2	Capital Human Resources (X) of the Regional Financial Condition (Y2)	0.101	0.177	Not Significant
3	Cultural Capital (Y1) of the Regional Financial Condition (Y2)	0.537	0.000	Significant

Graphically presented as follows:

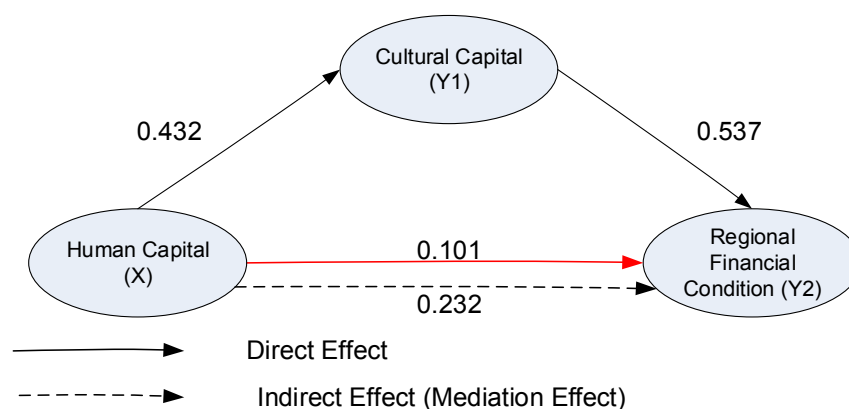


Figure 2: Structural Model SEM Results

Based on Table 3 and Figure 2, can be presented structural model test results as follows:

1. Effect of Capital Human Resources (X) to the Capital of Culture (Y1), structural coefficient obtained for 0.432, and a P-value of 0.000. Because the P-value of <0.05 , and the coefficient is positive, indicating that there is significant and positive between Capital Human Resources (X) to the Capital of Culture (Y1). The higher the Capital of Human Resources (X), would lead to higher the Cultural Capital (Y1).
2. Effect of Capital Human Resources (X) of the Regional Financial Condition (Y2), structural coefficient obtained for 0.101, and a P-value of 0.177. Because the P-value >0.05 , indicating that there is no significant relationship between Capital Human Resources (X) of the Regional Financial Condition (Y2). That is, the level of Capital Human Resources (X), would not result in high and low of the Regional Financial Condition (Y2).
3. Effect of Cultural Capital (Y1) of the Regional Financial Condition (Y2), structural coefficient obtained for 0.537, and a P-value of 0.000. Because the P-value of <0.05 , and the coefficient is positive, indicating that there is significant and positive between the Capital of Culture (Y1) of the Regional Financial Condition (Y2). The higher the Cultural Capital (Y1), will lead the higher the Regional Financial Condition (Y2).

Testing mediation obtained from several study directly influence the form of mediation. Here is presented the test results of mediation by using Sobel test:

Table 6. Structural Model Mediation SEM Results

<i>Mediation</i>	<i>Influence Tested</i>	<i>Coeffisient</i>	<i>CR</i>	<i>P-value</i>
Y1	X1 to Y2	0.232	3.166	0.009

A. Mediation Effect On Effect of Capital Cultural Capital of Human Resources of the Regional Financial Condition

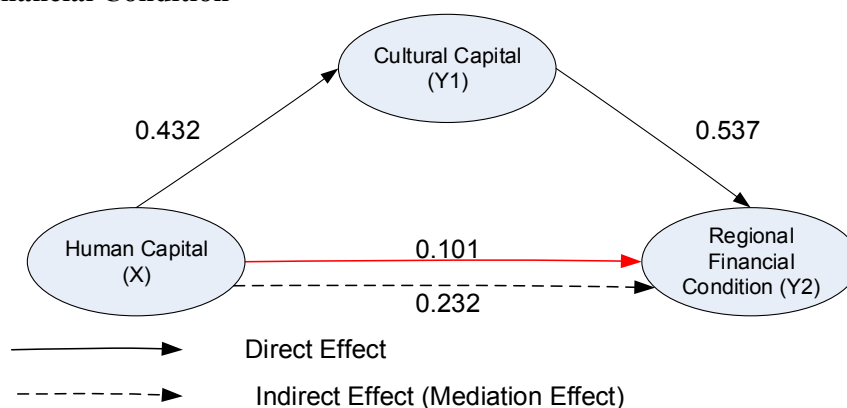


Figure 3. Mediation Effect On Effect of Capital Cultural Capital of Human Resources of the Regional Financial Condition

Test Results Sobel in Table 4 and Figure 3 shows that the coefficient of Indirect Influence by 0.232, and the value of CR for $3.166 > 1.96$ and P-value of $0.009 > 0.05$ indicates that the Capital of Culture (Y1) mediates the effect of the Capital of Human Resources to Financial Condition Region (Y2). Given the marked positive coefficient indicates that the higher the Capital of Human Resources will lead to higher the Regional Financial Condition (Y2), if mediated Cultural Capital (Y1) were also higher. With demikian, Cultural Capital (Y1) as a variable pemediasi relationship between the Capital of Human Resources of the Regional Financial Condition (Y2).

Analysis results show that human capital has a positive effect on cultural capital. If associated with the outer loading results above, the higher the Human Capital, as reflected particularly in the work experience, the higher the Cultural Capital in the work area of regional governments of South Sulawesi Province is, as indicated by the high level of intelligence. This implies that if employees are capable of using their work experience in the form of abilities to improve knowledge and information, this will be a good start or will be good enough to adapt to enormous human resources that are found in SKPD of the Regional Governments in South Sulawesi Province and thus, employees will be very capable of inspiring based on the disaster suffered or providing inspiration for the formulation of a policy which will benefit SKPD.

These research findings are consistent with the theory of cultural capital (Bourdieu, 1977) that the determining factor of cultural capital is human capital, and the theory of intellectual capital proposed by Bontis (2001) that capital in the form of employees (human capital) is strongly correlated with structural capital which include cultural capital therein. In this research, cultural capital refers to cultural values of society in South Sulawesi, namely honesty (*alempureng*), intelligence (*amaccang*), decency (*asitinajang*), determination (*agettengeng*), hard work (*reso*), and shame/pride (*siri*)

Moreover, the research findings also show that human capital does not directly affect regional financial conditions. This means the extent of human capital will not directly affect the condition of regional finance. These findings are contrary to the findings stating that human capital directly affects the condition of regional finance as suggested by Ahangar (2010), Bosma, Niels, (2002), Almazar and Aref (2011). However, they support the findings of the research by Kamukama, Ahiauzu, and Ntayi (2010) that human capital does not affect the financial performance of small-scale industries in Uganda.

Furthermore, the analysis results reveal that cultural capital affects regional financial conditions. The higher the cultural capital that is reflected in the understanding of government employees, particularly intelligence (*ammaccang*), the better the condition of regional finance as reflected in the significant aspects of governance areas, especially the ability to meet the property value.

These research findings reinforce findings of previous research such as Ekowati (2010), Porter (2003), Rider, Bruns, and Spier (2005) that the higher the cultural capital is, the better the financial condition of a region is. These findings also support the theory of legitimacy that in the event cultural capital is maintained, this will improve the financial condition of a region, as well as the Agency Theory that society equipped with physical capital and who serve as the principal

will require accountability of the government as the agent to assess the condition of regional finance.

Analysis results show that human capital indirectly affects regional financial conditions through the mediation of cultural capital. If associated with the outer loading results above, the higher the Human Capital, as reflected particularly in the work experience, the better the regional financial conditions are as reflected in the significant aspects of governance areas, especially the ability to meet the property value, if supported by high cultural capital in the work area of regional governments of South Sulawesi Province, as indicated by the high level of intelligence. These research findings support findings of the research by Winarno, (2013), Chan, et al. (2006), Dakhli and de Clercq (2004), Jardon and Loureiro, (2013), Ciptaningsih. (2013) which shows the existence of a mediating variable which mediates the effect of human capital on regional financial conditions.

5. CONCLUSIONS AND RECCOMENDATIONS

Based on the analysis, we can conclude that human capital has positive influence on cultural capital. The higher the human capital, primarily reflected in the work experience, will result in increasing the capital of culture in the working environment of local government in the province of South Sulawesi. However, it does not directly affect the financial condition of the area. Similar results were found in the influence of the cultural capital of the regional financial condition and significant positive effect so that the higher the cultural capital will affect the financial condition of the higher regions. In addition, it was found that the indirect result of human capital affect the financial condition of the area through the intermediary of the cultural capital. In other words, it was found mediating effect on the influence of human capital on the financial condition of the area.

Based on the analysis research, regional governments are advised to take improved human resource-oriented policies (particularly improved skill/experience of the employees). Moreover, it is recommended that future research engage the general public or stakeholders as respondents in order to obtain more comprehensive results.

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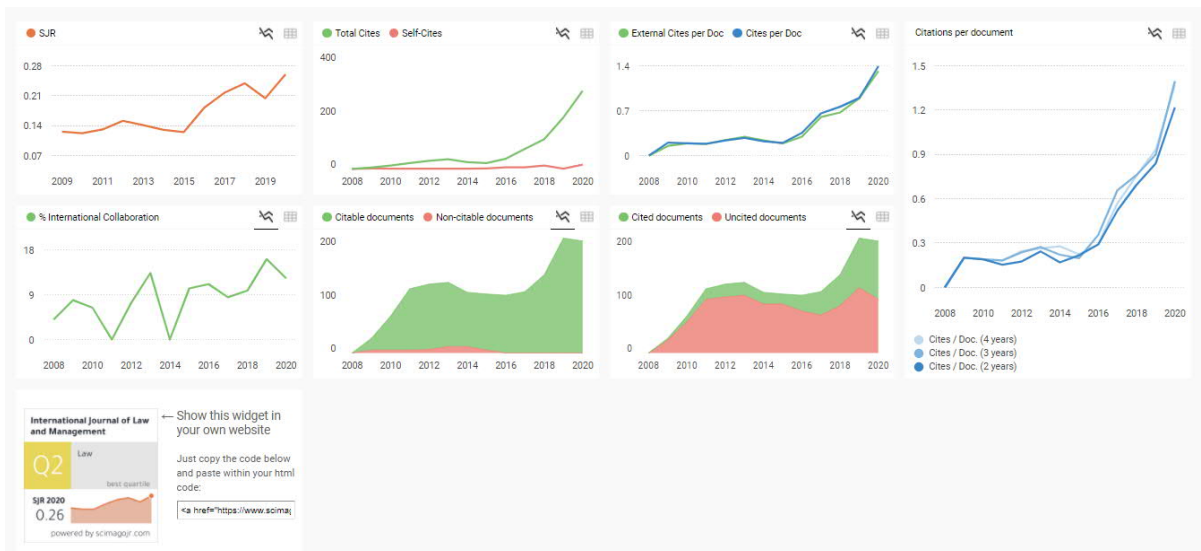
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