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Research Paper

Moderation of Management Control System for the Effect of Human Capital and Physical Capital on Regional Financial Conditions

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ABSTRACT:*This study aims to provide a review about moderation of Management Control System for the effect of Human Capital and Physical Capital on Financial Conditions. Management Control System variable was considered that with control and goal setting will increase the effect of Human Capital and Physical Capital on Regional Financial Conditions. The object in this study was the Regional Financial and Asset Agency in the areas of Parepare, Barru, Sidrap, Pinrang and Enrekang which are members of the Ajatappareng region. The total population is 125 people, consisting of 25 people per region. The method was using explanatory research. Data collection was using questionnaire instruments. And data were analyzed using Structural Equation Modelling (SEM). The results showed that (1) human capital had a positive effect on regional financial conditions, (2) physical capital had a positive effect on regional financial conditions, (3) management control system were able to moderate the relationship between human capital and regional financial conditions, (4) management control system unable to moderate the relationship between physical capital and regional financial conditions..*

KEYWORDS: *human capital, physical capital, management control system, financial conditions.*

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I. INTRODUCTION

Indonesia is one of the countries that adheres to a regional autonomy system in implementing its government. This is regulated in Law No. 23 of 2014 that the implementation of regional government was directed at accelerating the realization of community welfare through improving services, empowerment, and community participation, as well as increasing regional competitiveness by taking into account the principles of democracy, equity, justice and distinctiveness of a region within the Unitary Republic of Indonesia. Fiscal decentralization was implemented so that there are several levels of government that are able to control each region. Regional governments in each region will accommodate the aspirations of the people and are obliged to prosper the community in the form of service. Regional autonomy was part of decentralization. With the existence of regional autonomy, the regions have the right and obligation to regulate their own regions but still be controlled by the central government and in accordance with the law.

The success of regional autonomy was inseparable from the ability of a region to manage funds that have been budgeted for in an area in this case the State Budget Expenditures fund which will then be called the APBN. In addition, the regional government must also be able to utilize the resources that the area has. Therefore the success of regional autonomy cannot be separated from the financial conditions of the area.

The government financial condition here can be seen from the ability of a region to fulfill its obligations in the welfare or service of the community. In this study financial conditions include environmental, institutional and financial dimensions (Dinapoli, 2011). These three dimensions will be interconnected to produce good financial conditions.

Fulfillment of good financial conditions requires good control in carrying out the system within the government. This was reinforced by the Goal Setting theory in Locke and Gary's (2002) study which shows that there is a relationship between how difficult and specific a person's goals and performance was from a task. Specific and difficult goals lead to better task performance than vague or easy goals. In an organization there is a group of people who work together who need to be motivated and required to do what the leader wants and must be corrected if it deviates from the direction of achieving goals.

The goal setting theory was that management control system variable was used as moderation in creating good financial conditions for an area. Some empirical evidence that states that the management control system was able to improve the financial condition of Chandra (2017), Sari and fitriani (2009). Management control system was needed in every organization, because the system was designed to regulate the activities of organizational members through leaders (managers) of the organization to suit the desired goals of the company. The form of control can be in the form of accounting, behavioral and personal controls. The management control system is increasingly becoming the foundation in realizing a healthy and successful organization. For managers management control is a tool used in interactions between them and subordinates. Empirical evidence was also obtained from the results of research conducted by Riawan (2016) which states that the existence of a management control system was able to improve the financial condition / financial performance of the organization.

Standards for Internal Control in the Federal Government, United States General Accounting Office (1999) with quotations about management control system "*In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.*" In the quotation it was considered that the existence of a control system can increase public capital of the government. This public resource capital included in it is Human Capital and Physical Capital.

Faradina and Gayatri (2016) stated that Human Capital was an important part in increasing innovation, strategy, dreams of the organization and with good human resources will create a good market perception in an organization. In this case, with the presence of good Human Capital, it will improve the ability of an organization to achieve its goals. The results of this study also show that Human Capital has a positive effect on improving financial conditions in an organization.

Physical Capital was natural resources and other technological innovations. Human Capital is one of the supporting factors for improving the financial condition of a region. Because improving basic infrastructure such as sanitation, clean water, and electricity in an area improves service to the community and improves community welfare. In the Masyur research (2016) Local governments face difficulties in implementing a good control system strategy because there is no synergy between Human Capital and the control strategies carried out as well as classical infrastructure that makes community services less efficient.

Chandra (2017), Sari and Fitriani (2009) which states that management control system was able to improve financial conditions. The Resource Based System states that Human Capital and Physical Capital meet the criteria in unique resources that are capable of creating organizational competitive advantage so that they can create added value for the organization. The value referred to here was the better performance in an organization.

This research was conducted to replicate the research conducted by Nirwana et al. (2014). Then developed using the Management Control System as moderation to see the effect of Human Capital and Physical Capital on financial conditions. The research conducted by Nirwana et al. (2014) use the variable capital of human resources (Human Capital) and physical capital (Physical Capital) as independent variables, the financial condition becomes the dependent variable and cultural capital becomes the dependent variable. The novelty in this study was the moderation of management control system.

The reason for this research was also derived from the existence of empirical evidence also shown from several previous studies on differences of opinion influence between Human Capital on financial conditions and Physical Capital on financial conditions. Nirwana et al. (2014) found that Human Capital and Physical Capital did not have a significant effect on financial conditions but after being intervened using culture so that Human Capital and Physical Capital had an influence on financial conditions. Whereas different results are shown by Fitriati et al. (2014) which stated that Human Capital and Physical Capital had a positive effect. The two studies that led to this research were conducted.

This research was conducted in the Ajatappareng area. Rivai (2017) states that the Ajatappareng region currently consists of Parepare, Sidrap, Barru, Pinrang and Enrekang. The phenomenon in this study is included in Ajatappareng which has problems regarding management control systems that do not work effectively because of the limitations of the human capital and physical capital of the area. Based on the description above, this study aims to examine the moderation of the management control system on the influence of Human Capital and Physical Capital on the financial condition of the region.

II. THEORETICAL CONCEPT

The Goal Setting Theory shows that there is a relationship between how difficult and specific a person's goals and performance was from a task. He found that specific and difficult goals lead to better task performance than goals that are vague or easy (Locke and Gary, 2002). In 1990, Locke and Latham published their seminal work, "A Theory of Goal Settings and Task Performance". In this book, they reinforce the need to set specific and difficult goals, and they outline three other characteristics of successful goal setting. Five Principles of Targeting to motivate, goals must have clarity, challenges, commitments, feedback, and task complexity.

According to Dinapoli (2011) the financial condition is determined by a combination of government environment, institutional factors and financial factors. For example, when a population declines in a government, there will be a reduction in tax revenues (negative environmental invoices), but the government can overcome this by reducing services. Increasing tax rates, striving to develop economic resources which ultimately determines the financial conditions of local governments.

Many studies on financial conditions are carried out that use the concepts of human capital and physical capital with the theory of resource capital (Faradina and Gayatri (2016), Nimtrakoon (2015), Nirwana, et al. (2014), Ervina et al. (2008)). Whereas showing the moderation of management control systems was examined by (Chandra, (2017), Ong, et al. (2016), June and Dianne (2013)).

The hypotheses developed in this study are as follows:

H1: Human capital has a positive effect on financial conditions.
H2: Human capital has a positive effect on financial conditions.
H3: management control system moderates the relationship between human capital and financial conditions.
H4: Management control systems moderates the relationship between physical capital and financial conditions.

III. METHODOLOGY

The approach used in this study was a quantitative approach, which includes quantitative analysis to test between theory and data by first setting a hypothesis and then testing with statistical analysis techniques. The objects in this study were carried out in the study locations, Barru Regency, Parepare City, Sidrap Regency, Pinrang Regency, and Enrekang Regency. The population in this study was 125 people. The sampling technique in this study uses the census method, which is the distribution of questionnaires to all populations. The analytical model used to test the hypothesis was by using Structural Equation Modeling (SEM). The operational definitions and measurements for the variables in this study were:

1. Human Capital (X1). Human Capital variable according to Edvinson and Malone in Sharabati and Shawqi (2010) Human Capital was the accumulation of investment values in training and competency of employees. In addition, in Ferna 'ndez (2000) said that Human Capital was an intangible resource consisting of knowledge or information and which is included in Human Capital consists of mastering or having the competence of general knowledge and competence obtained from specialized knowledge.
2. Physical Capital (X2). Physical Capital variable according to Baldi (2013) and Nirwana et al. (2014) was government capital determined by government investment with the utilization of natural and environmental resources, facilities and infrastructure and government investment in the form of public facilities.
3. Management Control System (Z). The management control system variable according to Prabawati (2010) was a tool to monitor or observe the implementation of company management that tries to direct organizational goals within the company so that the performance carried out by the management of the company can run more efficiently and smoothly.
4. Financial Conditions (Y). The regional finance conditions variable was the success of the government in conducting financial management, public services and the ability to pay obligations. In the Dinapoli (2011) study, the Financial Condition was divided into three dimensions, namely the dimensions of Environment, Institutional and Financial.

IV. RESULT AND DISCUSSION

The first thing done when analyzing the results of this study, it is necessary to test the validity and reliability of the data, the results show that all indicators / dimensions of human capital, Physical Capital, Management Control Systems and Financial Conditions are said to be valid. And the results of reliability testing of data show 0.822 human capital; physical capital 0.779; management control system 0.880; and the financial condition of 0.913, the value of the test results is reliable above 0.60 (Cronbach Alpha standard) (Sekaran, 2016). Adjusted R value was 0.729 or 72.9%.

Based on statistical tests, the results obtained simultaneously that human capital and physical variables significantly influence financial conditions, management control systems moderate the relationship between human capital and physical capital and management control system was not able to moderate the relationship between physical capital and financial conditions.

The effect of human capital on financial conditions

Based on testing the direct influence between Human Capital (X1) on Financial Conditions (Y1), the path coefficient value in the path analysis was 0.175, with a t-statistic value of 2.043, and a p-value of 0.044. Because the t-statistic value is> 1.96, and p-value <0.05, then there is a direct effect between Human Capital

(X1) on Financial Conditions (Y1). Thus from the test results above there is a significant direct effect between Human Capital (X1) and Financial Conditions (Y1) thus hypothesis 1 which states that Human Capital has a significant influence on Financial Conditions, accepted

The results of this study strengthen the research of Ramli et al. (2014); Nimtrakoon (2015); Ervina et al. (2008); Is et al. (2014); which states that Human Capital has a positive effect on Financial Conditions. Different research was also found by Nirwana et al. (2014) who in his research stated that Human Capital does not directly affect the Financial Condition but must be mediated by Cultural Capital.

The results of this study support resource theory or also called Resource Based Theory (RBT). In this theory prioritizing the use of resources in this case Human Capital was to be made a competitive advantage over time in an organization. This research also clarifies the importance of Human Capital in an organization to make the organization able to compete from time to time.

This research reinforces the notion that in a government the role of Human Capital needs to be considered because the better Human Capital was able to strengthen the achievement of the objectives of a region. Meeting the needs of the population of an area can be improved by the existence of good Human Capital support.

The effect of physical capital on financial conditions

Testing the direct effect of Physical Capital (X2) on Financial Conditions (Y1), obtained path coefficient coefficient in path analysis of 0.321, with a t-statistic value of 4.409, and p-value of 0.000. Because the value of t-statistics> 1.96, and p-value <0.05, then there is a direct effect between Physical Capital (X2) on Financial Conditions (Y1). Thus from the test results above there is a significant direct effect between Physical Capital (X2) on Financial Conditions (Y1) thus hypothesis 2 which states Physical Capital has a significant influence on the Financial Condition, accepted

The results of this study reinforce research from Nimtrakoon (2015); Ervina et al. (2008); Is et al. (2014), but this study is not in line with the research of Nirwana et al. (2014) which states that Physical Capital does not have a direct effect on Financial Conditions but must be mediated by Cultural Capital. The results of this study support resource theory or also called Resource Based Theory (RBT). In this theory prioritizing the use of resources in this case Physical Capital to be made a competitive advantage over time in an organization. This research also clarifies how important Physical Capital is in an organization to make the organization able to compete from time to time.

Maximizing Physical Capital in this study was important for meeting community needs. This also shows that it was not only Human Capital that needs to be improved to improve the financial condition of a region but needs the support of facilities and infrastructure to support the capabilities of Human Capital itself.

Moderation of management control system on the reliationship of human capital and financial conditions

Testing the moderating effect of Management Control System (Z1) on the relationship of Human Capital (X1) and Financial Condition (Y1), obtained the path coefficient coefficient in path analysis of -0.098, with a t-statistic value of 2.351, and p-value of 0.021. Because the t-statistic value is> 1.96, and p-value <0.05, there is a moderating effect of Management Control System (Z1) between the relationship of Human Capital (X1) and Financial Conditions (Y1). Thus from the test results above there is a moderating effect of Management Control System (Z1) between the relationship of Human Capital (X1) and Financial Conditions (Y1), but because the coefficient value was negative, in this case the Management Control System moderation weakens the relationship between Human Capital (X2) with Financial Conditions (Y1). Thus hypothesis 3 which mentions management control system was able to moderate the relationship between Human Capital and Financial Conditions, accepted.

The result of this study was not in line with the research conducted by Chandra (2017); Ong et al. (2016); Rachma (2014); but Karsama (2017) research; Soobaroyen (2005), which states that management control systems are able to increase and reduce the level of dysfunctional behavior of a human being. Dysfunctional behavior here according to (Soobaroyen, 2006) is the behavior response of managers who make deviations from the policies set by the principal. This is what encourages people in activities to deviate from an organization because of the encouragement of the rules so that negative thoughts emerge.

This study also illustrates that when humans were regulated in terms of achieving goals, these humans will be compelled to violate the rules that have been determined. This research assumes that humans were able to work optimally when goals are determined and given freedom to achieve organizational goals.

Moderation of management control system on the reliationship of physical capital and financial conditions

Testing the moderating effect of Management Control System (Z1) on the relationship of Physical Energy (X2) and Financial Conditions (Y1), obtained path coefficient coefficient in path analysis of 0.056, with a t-statistic value of 1.934, and p-value of 0.056. Because the value of t-statistic is <1.96, and p-value> 0.05, there is no moderating effect of Management Control System (Z1) between the relationship of Physical Capital (X2) to Financial Condition (Y1). Thus from the results of the above tests there is no moderating effect of Management Control System (Z1) between the relationships of Physical Capital (X2) to Financial Conditions (Y1), thus hypothesis 3 which states the management control system was not able to moderate the relationship between Physical Capital and Financial Conditions.

The results of this study are not in line with the research conducted by Chandra (2017); Ong et al. (2016); Rachma (2014); however this research study is reinforced by Anthony and Govindarajan (2005) which states that: "Management control was also a process for detecting and correcting errors for accidental or intentional work. Because the focus is on humans and implementing plans, management control requires strong psychological considerations ". Opinions from Anthony and Gobindarajan (2005) state that Management Control Systems focus on humans so management controls require psychological considerations. Physical Capital here refers to natural resources, facilities and infrastructures in the government, so Physical Capital here does not have cyclology because it is a natural resource. This is what reinforces this research which assumes that the Management Control System was unable to moderate Physical Capital against Financial Conditions.

V. CONCLUSION

Human capital has an effect on financial conditions because the higher human capital will result in better financial conditions. This is in accordance with the theory of Resource Based Theory that uses Resources in competitive advantage. And physical capital has an effect on Financial Conditions. This can be interpreted that the higher Physical Capital will result in better financial conditions. This is in accordance with the theory of Resource Based Theory that uses Resources in competitive advantage

The Management Control System is able to moderate the relationship between Human Capital to Financial Conditions. In this study, it was found that if Human Capital was moderated by the Management Control System it would result in Financial Conditions being reduced. Because this study found that due to the existence of a Management Control System it would encourage dysfunctional behavior of humans so that behaviors would deviate from what should be done.

The Management Control System was unable to moderate the relationship between physical capital and financial conditions. In this research, it was found that the Management Control System had no influence in moderating Physical Capital towards Financial Conditions on the grounds that Physical Capital was not a human who possessed it so that the Management Control System was not able to influence the relationship.

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