

# Influence of Human Resource Quality and Budget Quality on Local Financial Performance: The Mediating Role of Local Management Information System

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## Abstract

*In the realm of an increasingly complex global economy, local governments grapple with multifaceted challenges and opportunities in resource and financial management. This study delves into the pivotal aspects of human resource quality (HRQ) and budget quality and their profound influence on local financial performance within the context of Buton Selatan Regency. The investigation unveils that HRQ significantly bolsters financial performance, offering a cornerstone for adept resource management and growth. Similarly, the study underscores the potency of budget quality in steering local financial performance, emphasizing the significance of well-structured budgets aligned with developmental priorities. Moreover, the Local Government Management Information System (LG-MIS) emerges as a vital intermediary, mediating the relationship between HRQ, budget quality, and financial performance. While the direct impacts of HRQ and budget quality stand out, the LG-MIS reinforces these associations, facilitating transparent, efficient, and data-driven financial management. Collectively, these findings illuminate pathways for local governments to enhance their financial standing, emphasizing the interplay between HRQ, budget quality, and the pivotal role of LG-MIS in achieving sustainable financial performance.*

## Keywords

LG-MIS; HRQ; budget quality; financial performance



## I. Introduction

The development of the global economy has brought forth various challenges and opportunities for local governments in managing finances and resources. In this increasingly complex era, enhancing local financial performance becomes crucial to support sustainable development, economic equality, and meeting societal needs. One essential aspect influencing local financial performance is the quality of human resources and budget. However, comprehensive research investigating the relationship between these two factors and the mediating role of the Local Government Management Information System (LG-MIS) in their influence on local financial performance is still limited. Therefore, this study aims to bridge this knowledge gap and provide fresh insights for practitioners and policymakers in local financial management.

Performance represents the achievement of planned objectives by individuals or organizations. If the achievement matches the plan, then the performance is considered well-executed. If the achievement surpasses the plan, the performance is regarded as excellent. Conversely, if the achievement falls short of the plan, the performance is deemed poor. According to Halim (2016), financial performance analysis involves identifying financial characteristics based on available financial reports. In government organizations, various performance metrics are used to measure financial performance,

including autonomy ratios, effectiveness ratios, efficiency ratios, growth ratios, and harmony ratios.

Local governments often encounter challenges in optimizing their financial performance. These challenges are multifaceted, encompassing effective and efficient human resource management and the formulation of budgets aligned with development priorities. The significance of sound management in these aspects cannot be overlooked, considering that failure to optimize resources can hinder local economic growth, lead to inequality, and impede development goals. Hence, this research is pertinent as it provides a deeper understanding of how enhancing human resource quality, along with budget quality through the implementation of the Local Government Management Information System, can collectively improve overall local financial performance.

Prior research has indicated the importance of the factors under investigation. Study Ramdhani, D., & Anisa, I. Z. (2017) asserts that enhancing human resource quality positively impacts the performance of public sector organizations. Meanwhile, Research by Azzindani, R., & Irwan, M. (2020) found that the implementation of a management information system can optimize budget management and improve the accuracy of financial reporting. On the policy side, the Policy issued by the Regional Government of South Buton emphasizes the importance of using information technology in increasing regional financial transparency. These things provide a strong basis for conducting this research, because it can be interpreted that the combination of these factors in a comprehensive study has the potential to provide solutions in overcoming regional financial performance problems.

Based on the aforementioned background, this study aims to analyze the influence of human resource quality and budget quality on local financial performance, along with the mediating role played by the Local Government Management Information System. Consequently, this research seeks to offer practical guidance to local governments in enhancing their financial performance through strategic steps focusing on human resource enhancement, budget optimization, and effective implementation of management information systems.

## **II. Review of Literature**

### **2.1 Local Financial Performance**

Employee performance is a crucial factor that companies must pay attention to (Arianty, Bahagia, Lubis, & Siswadi, 2016). Employee performance significantly affects the overall productivity of a company. Company productivity will be low if employee performance within the company is low, and conversely, the company will be productive and continue to develop if employee performance is high. Employee performance greatly influences their work outcomes (Jufrizen, 2016).

Local financial performance refers to the evaluation and analysis of the financial health of a local government in managing and utilizing its financial resources. This financial performance encompasses several indicators such as revenue, expenditure, investment, debt, and implemented fiscal policies. The concept of local financial performance is not only related to the achievement of financial outcomes, but also focuses on budget management efficiency, transparency in financial reporting, as well as the ability to meet local development needs and objectives. Evaluating local financial performance is crucial for local government planning and decision-making to ensure financial stability, sustainable economic growth, and the provision of quality public services for the community (Arifin, S. 2007).

## **2.2 Local Government Management Information System (SIMDA)**

The Local Government Management Information System (SIMDA) is an information technology framework developed to facilitate the collection, processing, analysis, and reporting of administrative and financial data within the scope of local government. SIMDA plays a central role in supporting efficiency, transparency, accuracy, and data-driven decision-making in local governance. This system involves the integration of various modules such as financial management, budgeting, assets, taxes, and development planning. According to ZEBUA, V. E. A. (2022), through the implementation of SIMDA, local governments can optimize budget management and financial resources, reduce the risk of errors, expedite financial reporting processes, and enhance transparency for stakeholders. SIMDA also provides the technological foundation for designing and implementing more effective fiscal policies, as well as promoting the use of accurate and real-time data in strategic decision-making. With SIMDA in place, local governments have the potential to enhance their financial performance and management, ultimately contributing to the achievement of development goals and better public services for the community.

## **2.3 Human Resource Quality (HRQ)**

Werther & Davis (1996) state that human resources are employees who are ready, capable, and prepared to achieve organizational goals. Human Resource Quality (HRQ) refers to the level of competence, knowledge, skills, and capacity of individuals or groups within an organization or society. HRQ plays a crucial role in determining the success and performance of various aspects of life, including the public sector. The concept of HRQ is not solely focused on technical aspects but also encompasses social, emotional, and ethical dimensions. In the context of local government, HRQ involves the ability of officials to carry out their duties and responsibilities effectively and efficiently, as well as contribute to achieving local development goals. Efforts to improve HRQ can involve training and development, enhancing literacy and awareness, and building an organizational culture that supports collaboration and innovation. High HRQ will lead to increased productivity, improved public service quality, better decision-making, and enhanced adaptability to environmental changes and global demands. In the context of this research, HRQ is linked to its influence on local financial performance, assuming that high-quality HRQ can effectively manage financial resources and contribute to the efficiency and effectiveness of local financial management.

## **III. Research Method**

The research method employed in this study is quantitative descriptive, where variables were measured using Likert scale. The sample size consisted of 100 individuals selected through the Stratified Proportional Random Sampling method from a total of 140 financial managers within Regional Work Unit (Satuan Kerja Perangkat Daerah or SKPD) and staff members in South Buton Regency. Data collection was carried out through questionnaires, observations, and interviews. The research instrument utilized a modified Likert scale ranging from 1 to 5. The validity of the instrument was assessed by calculating the product-moment correlation value for each statement item, which resulted in all questionnaire items having valid values. Reliability testing was conducted by calculating the coefficient alpha value for all variables, and the results indicated that all variables had values above 0.60, demonstrating their reliability. Data processing was performed using SPSS software version 26, involving instrument testing, classical assumption testing, and data analysis techniques using multiple linear regression analysis.

## IV. Result and Discussion

### 4.1 Multiple Regression Analysis

Multiple linear regression models were carried out to find out how much influence the independent variables (HR quality, Budget quality and SIMDA as moderating variables have on the dependent variable on performance. The analysis was carried out with the help of the SPSS Statistics program 26 for windows.

**Table 1.** First Model Multiple Regression Analysis

Model	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.660	2.758		3.502	0.001
HRQ	0.217	0.102	0.195	2.121	0.003
Quality	0.251	0.077	0.347	3.266	0.001
LG-MIS	0.309	0.109	0.141	2.831	0.002

a. Dependent Variable: **Financial Performan**

Based on Table 2, the multiple linear regression equation obtained in this study is as follows:  $Y = 9.660 + 0.217X_1 + 0.251X_2 + 0.309X_3 + e$  This equation can be explained as follows:

- a. The constant value of 9.660 indicates that when there is no influence from the independent variables ( $X_1, X_2, X_3$ ), the performance ( $Y$ ) will have a value of 9.660.
- b. Positive coefficient values indicate that as the values of the independent variables ( $X_1, X_2, X_3$ ) increase, the value of performance ( $Y$ ) will also increase.
- c. Negative regression coefficient values indicate that as the values of the independent variables ( $X_1, X_2, X_3$ ) increase, the value of performance ( $Y$ ) decreases.
- d. The coefficient of  $X_1$  ( $\beta_1$ ) = 0.217 indicates that for every one-unit increase in the human resource quality variable, the financial performance will increase by 0.217.
- e. The coefficient of  $X_2$  ( $\beta_2$ ) = 0.251 indicates that for every one-unit increase in the budget quality variable, the financial performance will increase by 0.251.
- f. The coefficient of  $X_3$  ( $\beta_3$ ) = 0.309 indicates that for every one-unit increase in the LG-MIS variable, the financial performance will increase by 0.309.

### 4.2 Coefficient of Determination (R<sup>2</sup>)

The value of the coefficient of determination is used to determine the ability of the independent variable to explain the variation of the dependent variable.

**Table 2.** Results of Testing the Coefficient of Determination of the First Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.687 <sup>a</sup>	0.472	0.456	2.409

Based on Table 3 it can be interpreted that the R number of 0.456 indicates that the level of correlation or relationship between HR quality, Budget quality, SIMDA and financial performance has a fairly close relationship. The results of this study indicate that the adjusted value (R<sup>2</sup>) is 0.456 or 45.6%. This means that 45.6% of financial performance can be explained by the variables of human resource quality, budget quality and SIMDA. While the remaining 54.4% is explained by other reasons not examined in this study, for example, morale, work discipline and others.

**Table 3.** Path Analysis Calculation Results

	<b>Direct Effect</b>	<b>Indirect Effect</b>
X1 – Y1	0,195	
X2 – Y1	0,347	
Y1 – Y2	0,141	
X1 – Y2	0,355	
X2 – Y2	0,651	
X1 – Y1 – Y2		(0,195 x 0,141) = 0,027495
X2 – Y1 – Y2		(0,347 x 0,141) = 0,048927

Based on the table above and the figure above, it can be seen that the direct effect of the HR quality variable (X1) on (Y2) is 0.355, while the indirect effect is 0.027495; from these results it can be seen that the influence of HR quality on financial performance has a greater direct effect (not through the SIMDA intervening variable). This implies that good quality human resources will make financial performance better with a direct effect.

Based on the table above and the figure above, it can be seen that the direct effect of the budget quality variable (X2) on (Y2) is 0.651, while the indirect effect is 0.048927; from these results it can be seen that the influence of budget quality on financial performance has a greater direct effect (not through the SIMDA intervening variable). This states that a good quality budget will make financial performance better with a direct effect.

### 4.3 Influence of Human Resource Quality on Local Financial Performance

The obtained research results indicate a significant positive influence of human resource quality (HRQ) on local financial performance. The implications of these findings underscore the indispensable role of HRQ within local governments in shaping sound financial performance. High-quality HRQ, characterized by exceptional competencies and skills, holds the potential to manage financial resources more prudently and effectively. Enhancing HRQ within local governments encompasses various aspects, such as training, leadership skill development, and boosting financial literacy among officials responsible for regional financial management. In this context, local governments should prioritize investments in HRQ through programs that support continuous learning, competence enhancement, and incentives to foster personal and professional growth among public officials.

These findings are in line with the research conducted by Puspitawaty (2020), which asserts that elevating HRQ within the public sector positively impacts organizational performance. High HRQ enhances the capacities of local governments to plan, allocate, and oversee financial expenditures, thereby yielding wiser budget policies. With proficient HRQ, local governments hold the potential to better navigate economic challenges and opportunities, amplify transparency in financial management, and provide superior public

services to communities. In conclusion, elevating HRQ not only serves as an investment in personal growth but also yields a significant impact on achieving more sustainable and responsive local financial performance aligned with developmental demands and global transformations.

#### **4.4 Influence of Budget Quality on Local Financial Performance**

The research outcomes that reveal a significant positive influence of budget quality on local financial performance within Buton Selatan Regency highlight the importance of thorough budget planning in preserving stability and elevating regional financial performance. Budget quality encompasses attributes such as integration, consistency, transparency, and alignment of budget allocations with regional development priorities. These findings suggest that local governments adept at crafting well-structured budgets based on sound analyses possess greater opportunities to achieve developmental objectives and manage financial resources efficiently. In the context of Buton Selatan Regency, strong budget quality likely reflects a focus on genuine societal needs and support for pertinent development programs.

These findings align with budget planning theory, as emphasized by Riniwati (2016), that underscores the significance of harmonizing budget policies with long-term development plans. The formulation of high-quality budgets helps avert inefficient resource allocation or undue focus on specific interests, thereby enhancing local financial outcomes. Moreover, these findings offer robust grounds for local governments and practitioners to enhance budget preparation quality through process improvements in planning, supervision, and reporting. The success of Buton Selatan Regency in achieving positive financial performance can serve as inspiration for other regions to prioritize budget quality as a means to enhance financial management effectiveness and sustainability.

#### **The Mediating Role of Local Government Management Information System (LG-MIS) in Influencing the Relationship between Human Resource Quality and Local Financial Performance**

The research findings reveal that the Local Government Management Information System (LG-MIS) mediates the relationship between human resource quality (HRQ) and local financial performance. This suggests that while the direct influence of HRQ on local financial performance is significant with a coefficient of 0.355, its indirect impact through LG-MIS is also positive albeit smaller, with a coefficient of 0.027495. These findings indicate a robust connection between HRQ and local financial performance, largely explained by its direct influence, while LG-MIS contributes to reinforcing this relationship. The research results are consistent with the findings of Budiman & Arza (2013), asserting that the proper utilization of the LG-MIS application can enhance the performance and work quality of SKPD employees towards improvement.

Mediation by LG-MIS in the relationship between HRQ and local financial performance underscores the pivotal role of information technology in optimizing regional financial performance. LG-MIS serves as a tool enabling efficiency and transparency in budget and financial resource management. With LG-MIS in place, high HRQ can be more effectively harnessed in the planning, reporting, and decision-making processes. These research findings highlight that, despite the smaller indirect effect, LG-MIS still plays a crucial role in facilitating and strengthening the positive impact of HRQ on local financial performance. Therefore, the implementation and development of LG-MIS should remain a priority for local governments in their efforts to enhance the overall quality of budget and financial resource management.

## The Mediating Role of Local Government Management Information System (LG-MIS) in Influencing the Relationship between Budget Quality and Local Financial Performance

The research outcomes indicate that the Local Government Management Information System (LG-MIS) acts as a mediating factor in the relationship between budget quality (X2) and local financial performance (Y2). Although the direct impact of budget quality on local financial performance is significant with a coefficient of 0.651, its indirect influence through LG-MIS is also positive but smaller, with a coefficient of 0.048927. This signifies that budget quality indeed has a larger direct impact on local financial performance, yet LG-MIS contributes to mediating and reinforcing this relationship. The research findings support the study conducted by Sudaryati (2013), which asserts that budgeting significantly influences performance through the local financial information system.

The mediating role of LG-MIS in the relationship between budget quality and local financial performance underscores the importance of information technology in supporting effective financial management. LG-MIS assists local governments in optimizing budget allocations, overseeing development program implementation, and improving financial reporting transparency. While the indirect effect of LG-MIS on the relationship between budget quality and local financial performance might be smaller, its meaningful role in facilitating and strengthening the positive impact of budget quality on local financial performance remains evident. Consequently, efforts to develop and enhance LG-MIS implementation remain relevant in promoting the effectiveness and transparency of financial management at the local level.

## V. Conclusion

This study has investigated the influence of human resource quality (HRQ) and budget quality on local financial performance, as well as the mediating role played by the Local Government Management Information System (LG-MIS). The findings of this study provide valuable insights into the dynamics of these factors in the context of financial management in Buton Selatan Regency.

The results indicate that human resource quality (HRQ) has a significant positive effect on local financial performance. High-quality HRQ, characterized by competence and skills, plays a pivotal role in efficient and effective financial resource management. This finding aligns with prior research emphasizing the importance of investing in HRQ to achieve improved performance outcomes in the public sector.

Furthermore, the study reveals that budget quality has a significant positive influence on local financial performance. Well-prepared budgets, characterized by integration, consistency, and transparency, have a strong impact on achieving development goals and effective financial resource management. This finding aligns with budgeting theory that underscores the need for alignment between long-term development plans and budget allocations.

Moreover, this research demonstrates that the Local Government Management Information System (LG-MIS) mediates the relationship between HRQ, budget quality, and local financial performance. Although the direct effects of HRQ and budget quality on financial performance are greater, LG-MIS still plays a vital role in facilitating and strengthening this relationship. LG-MIS assists local governments in enhancing financial management efficiency, transparent reporting, and evidence-based decision-making.

In conclusion, this study underscores the importance of HRQ, budget quality, and the role of LG-MIS in optimizing local financial performance. The findings have practical

implications for local governments seeking to enhance financial management practices and achieve development goals. Efforts to improve HRQ, optimize budget planning, and reinforce LG-MIS implementation need to be prioritized to achieve better and sustainable local financial performance.

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