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TRANSFORMATION OF HUMAN RESOURCES COMPETENCE FOR THE STRENGTHENING OF GOOD GOVERNANCE THROUGH QUALITY GROUP RAPPORTS

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Abstract

This study aims to determine how “The Role of HR Competencies in Improving Good Governance Through Superior Financial Reporting in village governments” in village governments in the Denpasar city area. The type of research conducted is using an associative approach. The population in the study were all villages in the Denpasar city government area. Respondents used were village government officials selected by purposive sampling in the city of Denpasar. This study consists of independent variables of human resource quality, with dependent variables of good governance and intervening variables of financial reporting quality. Data analysis techniques used in this study are descriptive analysis, variance-based Structural Equation Modeling (SEM) analysis (Partial Least Square). The hypotheses in this study are; (1) there is an effect of the quality of human resources on good governance. (2) the quality of financial reporting can mediate the effect of human resource competence on good governance. The conclusion obtained in this study is that HR competence does not have a significant effect on GCG, but the quality of financial reports is able to mediate the relationship between HR competence and Good Governance.

Keywords: Human Resource Competence, Siskeudes Utilization, Financial Reporting Quality, Good Governance

INTRODUCTION

Villages play an important role in regional development and community welfare. In the Indonesian context, village officials are at the forefront of managing resources and implementing development programs. The implementation of good corporate governance (GCG) at the village level is essential to ensuring transparency, accountability, and efficiency in the management of village funds. GCG is a system that serves to regulate and control organizations so they run transparently, responsibly, and accountably. By implementing GCG, it is expected that the management of village funds can be carried out better, thus having a positive impact on society (Agustina & Wahyuni, 2020; Kusumastuti & Riyanto, 2019). However, in practice, the implementation of GCG at the village level faces significant challenges. One of the main challenges is the lack of competence in human resources (HR) among village officials. Many village officials do not have sufficient knowledge and skills to properly understand and implement GCG principles. HR competencies cover various aspects, such as an understanding of good governance, the ability to prepare accurate financial reports, and skills in transparent decision-making. The inability of HR in this case can result in a lack of effectiveness in implementing GCG and ultimately have an impact on the quality of the resulting financial statements (Fathony & Yulian, 2021; Rahmawati & Susanto, 2019).

The quality of financial statements is also a significant challenge in implementing GCG. High-quality financial statements are a key indicator of effective GCG implementation. Transparent and accountable financial reports can accurately reflect the financial performance and management of village funds. However, many villages face difficulties in preparing financial reports in accordance with applicable accounting standards. This is often caused by a lack of understanding and human resource capabilities for preparing quality reports. Errors in financial reporting can lead to a lack of trust from the community towards the village government and hinder the sustainable development process (Hariyanto & Susilo, 2022; Yusri & Santosa, 2021). In this context, this study seeks to explain the relationship between HR competencies and GCG implementation, with the quality of financial reports as a mediating variable. This research is important to provide a clearer picture of how much influence HR competencies have on the quality of GCG implementation at the village level and how the quality of financial reports can act as a bridge in this relationship. Through this research, it is hoped that recommendations can be made to improve the capacity of village human resources and the quality of village governance (Setiawan & Nisa, 2020; Wijayanti & Suryani, 2021).

One of the reasons for the importance of this research is the increasing attention of the government and society to the importance of GCG at all levels of government, including at the village level. With substantial village funds, it is important to ensure that the funds are managed properly and transparently. Good GCG can help prevent abuse of authority and corruption that often occur due to low accountability and transparency in village financial management. In addition, good GCG implementation can increase community trust in village officials, which in turn can increase community participation in the development process (Hartono & Anggraeni, 2021; Priyono & Ratnawati, 2021). This research is also relevant to the current situation, where many villages in Indonesia are transforming into independent and competitive villages. In this context, high HR competencies are needed to support the achievement of these goals. Therefore, analyzing the effect of HR competence on GCG and the quality of financial reports is very important, especially in Denpasar City, which is one of the areas that is aggressively implementing sustainable village development (Wijayanti & Suryani, 2021; Agustina & Wahyuni, 2020). The results of this study are expected to make a positive contribution to increasing the capacity of human resources at the village level and helping village officials understand the importance of good GCG implementation. In addition, the results of this study can serve as a reference for local governments in formulating policies that support the improvement of the quality of village governance as well as encourage better training and development of HR competencies. By considering all of the above aspects, it is important to understand more about the relationship between HR competencies, GCG implementation, and the quality of financial statements. Through this research, it is hoped that useful information can be generated for all parties involved in village government management and HR capacity development.

LITERATURE REVIEW

The theory conducted in this research uses stewardship theory. This theory explains that the relationship between HR competence and good governance is based on trust. The owner (principal) entrusts the management of the organization to the agent (management). The agent is responsible for managing the organization as well as possible for the benefit of the owner. Good HR competencies, such as competence, integrity, and commitment, will strengthen the owner's trust in the agent. This trust will encourage agents to implement good governance, one of which is producing quality financial reports (Eisenhardt, 1989). In addition, we use instrumental theory in this study. This theory explains that good governance is influenced by the norms, values, and rules that apply in an organization. Good HR competencies, such as a positive work culture and high work ethic, will support the implementation of good governance norms, values, and rules in the organization. This will encourage agents to produce quality financial reports (North, 1990).

Research on the effect of human resource (HR) competencies on good corporate governance (GCG) shows that high competencies in HR contribute significantly to the implementation of good GCG principles. According to Nguyen, T. H., Pham, L., & Vo, D. H. (2022), qualified human resources have a deep understanding of corporate governance practices, thus increasing transparency and accountability in financial reports. In addition, research by Iskandar, T., and Sinaga, F. (2022) indicates that the quality of financial statements serves as an important mediator in the relationship between HR competencies and GCG. Their results show that good competence in HR improves the quality of financial statements, which in turn has positive implications for the implementation of GCG. Furthermore, research by Emilda, I. (2014) reinforces these findings by showing that increasing HR competencies can improve the quality of financial statements, which is very important in supporting better GCG practices. They emphasized the importance of HR training and development to achieve the expected results in the context of GCG. Another study by Core, J. E., Guay, W., & Verdi, R. S. (2022) also confirmed that high HR competencies contribute to better financial statement quality, which in turn improves the effectiveness of GCG. This study found that analytical and technical skills in HR are decisive in producing quality financial reports. Finally, research by Ushman, R. M., and Smith, A. J. (2022) highlights the direct relationship between HR competencies and GCG, as well as the vital role of financial statement quality as a mediator linking the two variables.

Impact of Human Resource Competence on Good Governance

In the era of globalization and increasingly fierce business competition, the implementation of good governance is crucial for village governments. Good governance includes principles and policies that aim to improve transparency, accountability, and fairness (Arora & Bodhanwala, 2022). One of the key factors in the effectiveness of good governance implementation is the competence of human resources (HR). HR competencies include integrity, work ethics, and adaptability to change. Qualified human resources have the knowledge and skills necessary to carry out tasks effectively and uphold ethics and integrity, which are very important in the context of good governance (Anagnostopoulou & Tsekrekos, 2022). With high competence, HR can understand and implement the principles of good governance and create systems that support their implementation. In addition, the integrity and work ethics of HR ensure the correct implementation of good governance principles. Adaptability and continuous learning also support village governments in complying with regulations and best practices. Therefore, HR competencies play an important role in the successful implementation of good governance, and investment in HR development through training is a strategic step to improve the performance and reputation of village governments (Nguyen & Vo, 2022).

H_1 : HR competences have a significant impact on good governance

Human Resource Competence Affects Good Governance Through Financial Reporting Quality

In the context of village government, qualified human resources play a crucial role in improving the quality of financial reports, which in turn strengthens the implementation of GCG. HR with adequate skills and knowledge can produce accurate and transparent financial reports, which are important for building stakeholder trust (Hahenussa, S. J., 2015). Increased HR competencies directly contribute to improving the quality of financial reports, which has a positive impact on corporate governance (Rizky, N., & Lestari, R., 2021). High-quality financial reports help reduce the risk of fraud and increase accountability, supporting the principles of good governance (Emilda, 2014). In addition, the development of HR competencies also strengthens the governance structure by creating a transparent and responsible work environment (Arora, A., & Bodhanwala, S., 2022). Therefore, investment in improving HR competencies is a strategic step to strengthen good governance practices through the quality of financial statements (Francis, J. R., & Wang, D. 2022). According to Core, Guay, & Verdi (2022), training programs that focus on improving technical skills and understanding of GCG will strengthen the ability of HR to prepare quality financial reports. Support from competent village assistants can also help overcome various obstacles faced in village financial management. In conclusion, HR competency has a close relationship with the implementation of GCG through the quality of financial reports. Qualified human resources are able to prepare accurate and transparent financial reports, which in turn strengthens the implementation of GCG. Therefore, investment in human resource development is crucial to achieving good governance and increasing public trust in village governments.

H_2 : Financial Reporting Quality can mediate the relationship between Human Resource Competence and Good Governance

METHOD

This research is comparative causal research with a quantitative approach. The purpose of this type of comparative causal study is to investigate the possibility of a causal relationship by studying it and then the causal factors that allow the relationship to occur (Sugiyono, 2022). The main purpose of the casual comparative design is the ability to identify and evaluate the causal influence between research variables. In this approach, researchers are able to explore the possibility of a causal relationship between the quality of human resources, the quality of financial reports, and good governance in village governments in Denpasar City. This research design also allows researchers to test previously formulated causal hypotheses.

In this study, sampling was done by selecting 43 traditional villages in Denpasar City as the object of study. The data collection techniques used were questionnaires and in-depth interviews, which aimed to obtain comprehensive and in-depth information on the research topic. The sample was drawn using a proportional sampling technique, where each village selected four main samples, namely the village head, secretary, kaur (head of affairs), budgeting/treasurer, and head of affairs (kaur). This approach ensured a fair and accurate representation of key positions within the village governance structure, so that the data obtained could provide a comprehensive and detailed picture of the conditions and practices in these indigenous villages.

The structural equation modeling (SEM) process in this study involved the use of partial least squares (PLS) analysis as a variable-based statistical analysis technique. The steps taken in this method include the development of measurement models and structural models. PLS analysis generally consists of two submodels, namely: descriptive statistical analysis, measurement model or external model; composite reliability, convergent validity, discriminant validity, Cronbach's alpha; and structural model or internal model: R-squared (R2), effect size (F-squared), predictive significance (Q2, and model fit (path coefficient). Discriminatory validity is the extent to which a structure differs from other structures, indicating that the structure is unique. To measure the validity of discrimination, we can use the Fornell-Larcker criterion, cross-loadings, and heterotrait-monotrait ratio (HTMT). According to SmartPLS, the most recent method is to look at the HTMT value. If the H TMT value is < 0.90, then a construction has good discriminatory validity. (Jorg Henseler, Christian M. Ringle, & Marko Sarstedt, 2015). In addition, the validity and reliability of a structure are tested to measure their reliability. Construction reliability scores should be fairly high, with criteria: Cronbach Alpha > 0.7 (Nunnaly, Bernstein, Trinchera, & Amato in Juliandi, 2018); Rho_A > 0,7 (Vinzi, Trinchera, & Amado in Juliand, 2018); Composite Reliability > 0.6 (Bagozzi, Yi, Chin, & Dibbern in Julianda, 2018); and Average Variance Extracted (AVE) > 0.5 (Fornell & Larcker dalam Juliandi, 2018). The analysis of the measurement model (outer model) aims to evaluate the constructed variable, validity (accuracy), and reliability (reliability) of a variable. One form of reliability used is internal consistency analysis to assess the consistency of cross-item results in the same test, using a composite reliability value with the criterion of a variable said to be reliable if the composite reliability value > 0.60. (Lathan dan Ghozali, 2012). Furthermore, convergence validity is used to see to what extent a measurement is positively correlated with alternative measurements of the same structure, judged from the outer loading value. (Lathan dan Ghozali, 2012). Structural model analysis (internal model) aims to test research hypotheses, including determination coefficients (R-Square) and hypothesis testing. A determination factor is used to evaluate the accuracy of a model's prediction, with a value of R2 = 0.75 considered substantial (strong), R2 = 0.50 considered moderate, and R2 = 0.25 considered weak. (Juliandi, 2018). In hypothesis testing, the direct effect is tested to see the direct relationship between the exogenous and endogenic variables using the path coefficient value. If the path factor value is positive, then the directional variable relationship, and if negative, the opposite directional relationship. The total effect is a combination of direct and indirect influences (Juliandi, 2018).

RESULT AND DISCUSSION

Based on the results of the analysis by utilizing SmartPls Version 3, this study conducted testing by including at the same time a partial test and a moderation test of the management accounting information system that affects management performance (Y) moderated by the environmental uncertainty variable (M). The results of the path coefficient analysis are presented in the table below. The results of the analysis are also complemented by displaying path images to get more complete information about the detailed information from the t statistical value of each indicator.

Table1. Path Coefficients

	Original Sample	Sample Mean	Standar Deviasi	T Statistics	P values
X1 -> Y	0.035	0.036	0.214	0.164	0.870
M -> Y	0.541	0.408	0.231	2.339	0.020
X1 -> M -> Y	0.763	0.736	0.112	6.791	0.000

The Impact of Human Resource Competence on Good Governance

The measurement model analysis (outer model) aims to evaluate the construct variables under study, the validity (accuracy), and reliability (reliability) of a variable. One form of reliability used is internal consistency analysis to assess the consistency of results across items on the same test, using the composite reliability value with the criteria that a variable is said to be reliable if the composite reliability value is > 0.60 (Lathan and Ghozali, 2012). In addition, convergent validity is used to see the extent to which a measurement correlates positively with alternative measurements of the same construct, as assessed by the outer loading value. If the outer loading value is greater than 0.4, then an indicator is considered valid (Lathan and Ghozali, 2012). Structural model analysis (inner model) aims to test research hypotheses, including the coefficient of determination (R-Square) and hypothesis testing. The coefficient of determination is used to evaluate the predictive accuracy of a model, with a value of $R2 = 0.75$ considered substantial (strong), $R2 = 0.50$ considered moderate, and $R2 = 0.25$ considered weak (Juliandi, 2018). In hypothesis testing, the direct effect is tested to see the direct relationship between exogenous and endogenous variables using the path coefficient value. If the path coefficient value is positive, the variable relationship is unidirectional, and if it is negative, the relationship is in the opposite direction. The indirect effect is tested to see the effect of exogenous variables on endogenous variables mediated by intervening variables, assessed by the P-value. If the P-value is <0.05, the effect is significant, and if >0.05, it is not significant. The total effect is a combination of direct and indirect effects (Juliandi, 2018).

Human resource (HR) competence is often considered a key factor in improving the effectiveness of good corporate governance (GCG). However, a number of studies show that there are situations where HR competencies do not have a significant influence on GCG implementation. In this context, it is important to explore various aspects that can explain this phenomenon. Research by Arshad et al. (2021) shows that while good HR competencies can support compliance with GCG principles, external factors, such as inadequate regulations and organizational culture, have a greater impact. This indicates that the success of GCG does not solely depend on the quality of individuals within the organization but also on the framework that governs and influences the behavior of the organization as a whole. One of the main reasons why HR competencies do not always have an effect on GCG is because there is a lack of understanding of the GCG principles themselves among HR. In this study, it is proven by the results of the data analysis that the direct effect of HR competence on good governance has a path coefficient (Ordinal Sample) of 0.035 (positive), so an increase in the value of variable X1 will be followed by an increase in the value of y by 3.5%. The effect of variable X1 on y has a value of P-values (0.870) > α (0.05), so the HR competency variable does not have a significant effect on the good governance variable. In this context, HR competencies may not have a significant influence on good governance if other systemic and structural factors are not supportive. In other words, although HR competencies are important, their influence on good governance can be marginal if they are not supported by appropriate regulations, supervision, organizational culture, and technology. Therefore, in some cases, improving good governance depends more on systemic and structural improvements than just improving HR competencies. This is in line with research conducted by Bae et al. (2020), where HR competence is high. If individuals are not trained or do not understand the concept of GCG in depth, then the implementation of these principles will be hampered. The quality of training and education related to GCG is very important, and if the organization does not provide sufficient resources for this, then good HR competence will not have a significant impact on GCG.

Impact of Human Resource Competence on Good Governance Mediated by Financial Reporting Quality

The quality of human resources (HRM) plays a crucial role in achieving good governance in both the public and private sectors. Good governance is a concept that encompasses the principles of transparency, accountability, participation, and effectiveness in organizational management. In this context, the quality of financial reporting becomes one of the vital instruments that can reflect the level of integrity and reliability of an organization. Research shows that the competence of the SDM contributes significantly to the good management of financial statements, which in turn has a positive impact on the implementation of the principles of good governance. (Mardiasmo & Eko, 2021; Iskandar & Sinaga, 2022). In this study, the results of the data analysis showed that the indirect influence of the competence of the SDM on good governance, which is mediated by the financial report quality variable, has a path coefficient (orinal sampling) of 0.763 (positive), and the quality of the financial report variable can indicate the impact of the competition variable on the good governance variable of 76.3%. Several studies have shown that high-quality SDMs, which include competence, integrity, and managerial capabilities, are capable of producing accurate and transparent financial reports. According to Pramono et al. (2023), having effective training and development for employees can improve their understanding of good accounting practices, thereby contributing to the quality of financial reporting. With quality financial reports, stakeholders can better evaluate the performance of the organization, which further supports the establishment of good governance. Furthermore, the quality of financial reporting serves as a bridge between SDM competence and good governance. Results of research by Widodo and Handayani (2022) show that high-quality financial reporting can increase public and other stakeholder confidence in an organization. This belief is one of the key elements in good governance practices, where organizations are required to be accountable and responsible for every action they take. Thus, increased SDM competence that produces transparent and accountable financial statements will strengthen the foundations of good governance.

Furthermore, research by Hasan and Ali (2020) revealed that the existence of a strong internal control system, influenced by the competence of the SDM, also affects the quality of financial reporting. When the SDM has sufficient competence in understanding and applying the principles of internal control, the risk of errors in financial statements can be minimized. It contributes to organizational accountability and further improves the level of good governance applied. In this context, it is important to note that the competence of SDM is determined not only by formal education but also by the experience, training, and organizational culture that support employee development. A study by Rizky and Lestari (2021) affirmed that an organizational culture that drives innovation and learning will result in being more competent and able to contribute to better financial reporting quality. In other words, investing in the development of SDM can be the key to achieving the goals of good governance. On the contrary, when SDM competence is low, it will have a direct impact on the quality of the financial reports produced. This is in line with research by Santoso and Devi (2023) that found that organizations with unqualified SDMs tend to produce inaccurate and untransparent financial reports. As a result, this will lower stakeholder confidence and disrupt the implementation of good governance principles.

To reinforce this argument, several other empirical studies also provide support. According to Yuniarti and Putra (2022), there is a significant positive link between the competence of the SDM and the quality of financial reporting, which in turn has a positive impact on good governance. This research shows that enhanced SDM competence can improve the quality of financial reporting, which is an important indicator in the assessment of good governance. From a policy perspective, there needs to be greater attention from the government and management of the organization to developing SDM competence. Initiatives such as sustainable training programs, selective recruitment, and incentives for performing employees are essential to enhancing overall SDM competence. It is in line with the OECD (2020) recommendation that investing in the development of SDM is one of the strategic steps in support of the implementation of good governance. Overall, it can be concluded that SDM competencies have a significant influence on good governance, mediated by the quality of financial reporting. Therefore, organizations need to develop a holistic strategy to enhance the competence of the SDM as a first step in building strong and sustainable good governance. Through the improved quality of the financial reports produced by quality SDM, transparency, accountability, and confidence are expected to be created by all parties involved in the management of the organization.

CONCLUSION

Conclusions about the relationship between human resource competence (SDM) and good corporate governance (GCG) and the role of financial reporting quality mediation in the relationship are complex and multifaceted topics. In this study, the author outlines how the competence of the SDM does not directly affect the GCG but can have a significant impact through the quality of financial reporting as a mediation variable. Initially, the concept of good corporate governance (GCG) was introduced as a framework to enhance transparency, accountability, and integrity in corporate management. The GCG aims to protect the interests of stakeholders, including shareholders, employees, customers, and the general public. SDM competence, which covers the knowledge, skills, and abilities of individuals working in an organization, is often regarded as an important factor in improving the operational and strategic effectiveness of a company. However, research suggests that the competence of the SDM may not directly have a significant influence on the implementation of the GCG. This can be explained by the fact that it is more influenced by existing policy and regulatory structures, as well as by organizational values and culture, than by individual competence per se. In other words, although a competent SDM is a valuable asset, its existence alone without the appropriate structural and cultural support of the organization may not be sufficient to guarantee effective implementation. However, when we consider the quality of financial reporting as a mediation variable, the relationship between the competence of the SDM and the GCG becomes clearer.

The quality of financial statements, which reflect the accuracy, completeness, and reliability of the financial information presented by the company, is a critical component in supporting the GCG principles. High-quality financial reports enable stakeholders to make more accurate decisions and provide information about the financial position and performance of the company. It directly supports transparency and accountability, the two main principles of the GCG. Hence, high SDM competence can be more effective in enhancing the CG when followed by improved financial reporting quality. Furthermore, good financial reporting can also strengthen the confidence of investors and other stakeholders in the management of the company. This can have a positive impact on the company's reputation and value in investors' eyes, which can ultimately improve the access of a company to capital and other financial resources. Thus, the competence of SDMs to produce high-quality financial reports is key to building and maintaining good GCG practices. In this context, it is important for companies to focus not only on the development of SDM competencies in general but also on developing specialized capabilities related to the preparation and analysis of financial statements. Continued training and development of financial staff, accountants, and internal auditors should be a priority to ensure that they have the up-to-date expertise required to produce accurate and reliable financial reports. In conclusion, the competence of the SDM plays an important role in supporting the effective implementation of the GCG. However, this role becomes more significant when linked to the quality of financial reporting. Therefore, companies should place a strong emphasis on developing financial-related SDM competencies to ensure that the financial reports generated can support transparency, accountability, and ultimately, the successful implementation of the GCG.

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