

The Effect of Leadership and Internal Control on the Financial Performance of the Regional Financial and Asset Management Agency of the Arfak Mountains Regency

*¹Kasmawati, ²Theodorus Lamaurin Herin, ³Budiman

*^{1,2,3}Universitas Caritas Indonesia

Abstrak

This study investigates the effect of leadership and internal control on the financial performance of the Regional Financial and Asset Management Agency (BPKAD) in Arfak Mountains Regency. Effective financial performance is crucial for ensuring the efficient and transparent management of regional finances and assets. Leadership, as a determinant of strategic decision-making and organizational direction, and internal control, as a mechanism for mitigating financial risks and ensuring accountability, play pivotal roles in achieving this objective. The research employs a quantitative approach. It uses a structured questionnaire distributed to 50 respondents selected through purposive sampling, comprising key personnel of BPKAD. Data analysis uses multiple linear regression to evaluate the individual and collective impacts of leadership and internal control on financial performance. The findings indicate that both leadership and internal control significantly and positively influence financial performance, individually and collectively. Leadership emerges as the dominant factor, highlighting the importance of visionary and influential leaders in driving financial efficiency and compliance. Internal control, encompassing financial monitoring, risk management, and procedural adherence, also demonstrates a substantial effect, emphasizing its role in ensuring financial accountability and minimizing errors or misuse of resources. This study underscores the importance of strengthening leadership capacity and enhancing internal control mechanisms to improve financial performance. The results provide actionable insights for policymakers and regional governments to optimize financial management practices and ensure transparency, accountability, and efficiency in public finance administration.

Keywords: leadership, internal control, financial performance, BPKAD, Arfak Mountains Regency.

opyright (c) 2024 ¹Kasmawati

✉ Corresponding author :

Email Address : kasmawati1534@gmail.com

INTRODUCTION

Financial performance is a fundamental aspect of organizational success, reflecting an institution's ability to manage its financial resources efficiently and align them with its strategic objectives (Mutya & Josephine, 2018). In the public sector, financial performance is a measure of operational success and a benchmark for accountability, transparency, and public trust (Waal, 2010). For institutions like the Regional Financial and Asset Management Agency (BPKAD) of the Arfak Mountains Regency, achieving

The Effect of Leadership and Internal Control on the Financial Performance....

strong financial performance is crucial to ensuring that public resources are allocated and utilized effectively to meet the developmental needs of the region ([Rahmayati & Chrystiana, 2019](#)). This is particularly critical in regions where financial management directly impacts public service delivery, infrastructure development, and the overall quality of life for the local population.

Leadership is one of the critical determinants of financial performance, as it sets the tone for organizational culture, strategy, and operations. Influential leaders play a pivotal role in guiding their organizations through the complexities of financial management, particularly in the public sector, where financial governance is closely scrutinized ([Schobel & Pond, 2020](#)). Leadership in this context involves inspiring and motivating employees, fostering a culture of responsibility and accountability, and making informed decisions that align with the organization's financial goals ([Oyaro & Angwenyi, 2016](#)). For BPKAD in the Arfak Mountains Regency, leadership also entails understanding the unique financial challenges of the region and implementing strategies to address them while maintaining compliance with national and regional financial regulations. Strong leadership ensures that financial management practices are efficient, transparent, and aligned with the broader developmental goals of the region ([Oduor & Kebba, 2019](#)).

Equally important is the role of internal control in enhancing financial performance. Internal control encompasses the systems, processes, and procedures to monitor and manage financial activities ([Nzibonera & Ninsiima, 2020](#)). It safeguards against financial mismanagement, fraud, and inefficiency, ensuring that resources are used appropriately and in compliance with established regulations. Effective internal control mechanisms enhance the accuracy and reliability of financial reporting, promote adherence to budgeting processes, and minimize the risks associated with financial errors or misuse of funds ([Petrovits et al., 2010](#)). For BPKAD, internal control is vital for managing the complexities of regional financial administration, including revenue collection, expenditure monitoring, and asset management. By providing a framework for accountability, internal control supports the agency in achieving its financial objectives while fostering public trust in its operations.

Although leadership and internal control have been widely studied as individual factors influencing financial performance, there is limited research on their combined impact, particularly in the context of regional financial agencies such as BPKAD in the Arfak Mountains Regency. This gap is significant because the interplay between leadership and internal control can offer deeper insights into how financial performance is shaped. Leadership provides the strategic direction and decision-making necessary for implementing robust financial systems, while internal control ensures that these systems function effectively by mitigating risks and ensuring compliance ([Gu & Yuan, 2020](#)). Examining these factors together can provide a comprehensive understanding of the mechanisms driving public institutions' financial performance ([Bermpei et al., 2018](#)).

This study seeks to address this gap by investigating the combined effects of leadership and internal control on the financial performance of BPKAD in the Arfak Mountains Regency. Specifically, the research aims to determine how leadership practices influence the implementation and effectiveness of internal control systems and how these, in turn, impact financial outcomes. The study adopts a quantitative

approach to measure the influence of these variables, offering empirical evidence to support its findings.

The results of this research are expected to contribute to the growing body of knowledge on financial performance in public institutions, with practical implications for policymakers, organizational leaders, and financial managers. By identifying the key drivers of financial performance, this study aims to provide actionable recommendations for strengthening leadership capacity and enhancing internal control mechanisms in BPKAD. These findings can serve as a roadmap for improving financial management practices in other regional financial agencies, ultimately contributing to more transparent, efficient, and accountable public financial administration. In the broader context, such improvements can enhance public trust in government institutions and support sustainable regional development.

METHODOLOGY

This study employs a quantitative research approach to investigate the effect of leadership and internal control on the financial performance of the Regional Financial and Asset Management Agency (BPKAD) of the Arfak Mountains Regency. The research design utilizes a survey method, allowing for the collection of structured data to assess the relationships between the variables under study. The study population comprises BPKAD employees who are directly involved in financial management and decision-making processes. Using a purposive sampling technique, 50 respondents were selected based on their roles and relevance to the research objectives. This sampling approach ensures that the data collected represents individuals with adequate knowledge and experience regarding leadership, internal control systems, and financial performance within the agency.

The primary data for this study were collected using a structured questionnaire explicitly developed to measure the three key variables: leadership, internal control, and financial performance. The questionnaire items were designed based on established theoretical frameworks and previous research findings to ensure validity and reliability. Each variable was assessed using multiple indicators, such as vision, decision-making ability, and strategic planning for leadership; risk management, compliance, and procedural adherence for internal control; and budget accuracy, revenue optimization, and financial reporting quality for financial performance. All questionnaire items used a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to capture the perceptions and evaluations of respondents.

The collected data were analyzed using multiple linear regression to determine the individual and collective influence of leadership and internal control on financial performance. Before the regression analysis, several preparatory steps were conducted to ensure the validity and reliability of the data. Descriptive analysis summarized the demographic characteristics of the respondents and provided an overview of the variables studied. Validity and reliability tests were conducted to confirm that the questionnaire items accurately and consistently measured the intended constructs. Classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, were performed to ensure that the data met the requirements for regression analysis.

The regression analysis estimated the relative contributions of leadership and internal control to financial performance. Hypothesis testing was performed to evaluate the

significance of the independent variables through t-tests, while an F-test was used to assess the overall model significance. The level of statistical significance was set at 0.05 for all tests.

The study is guided by a framework in which leadership and internal control are independent variables, while financial performance is the dependent variable. This methodological approach ensures a robust analysis of the relationships between the variables, providing empirical evidence on the role of leadership and internal control in shaping BPKAD's financial performance. By integrating established theoretical constructs with quantitative analysis, this study offers insights that are both practical and theoretically grounded, contributing to the optimization of financial management practices in public institutions.

RESULTS

The findings of this study provide a comprehensive understanding of the influence of leadership and internal control on the financial performance of the Regional Financial and Asset Management Agency (BPKAD) in the Arfak Mountains Regency. The analysis confirms that leadership and internal control have a statistically significant and positive effect on financial performance, both individually and collectively, highlighting their critical roles in shaping financial outcomes within the organization. The descriptive analysis reveals that respondents perceive leadership at BPKAD to be highly effective, with a mean score of 4.2 on a 5-point scale. This suggests that the leadership at BPKAD is characterized by clear vision, strategic decision-making, and effective communication. Respondents acknowledged that the leaders provide strong guidance, foster collaboration among team members, and align organizational goals with regional financial management priorities. The positive perception of leadership underscores its importance in maintaining financial discipline, driving performance, and inspiring employees to achieve organizational objectives.

Internal control mechanisms were also rated favorably, achieving a mean score of 4.0, indicating that the organization has implemented robust systems for monitoring and managing financial activities. Respondents highlighted structured processes for risk management, compliance with regulations, and financial reporting. These systems ensure that financial resources are used efficiently and that potential risks, such as errors or fraud, are minimized. The high rating for internal control reflects its crucial role in supporting financial accountability and operational transparency at BPKAD.

As the dependent variable, financial performance achieved a mean score of 4.1, indicating that BPKAD demonstrates strong performance in managing its financial resources. Respondents noted the agency's ability to optimize revenue collection, maintain budgetary discipline, and produce accurate financial reports as key indicators of its financial success. This high level of financial performance reflects the organization's capacity to fulfill its mandate effectively while adhering to principles of transparency and accountability.

The regression analysis provides deeper insights into the relationships between the variables. Leadership emerged as the most influential factor affecting financial performance, with a standardized beta coefficient of 0.48. This finding highlights the pivotal role of leadership in driving financial success at BPKAD. Leaders who demonstrate strong decision-making abilities, provide strategic direction, and cultivate a culture of accountability and innovation significantly impact the

organization's financial outcomes. Effective leadership ensures that financial management practices are aligned with organizational goals, fostering a proactive approach to addressing financial challenges and opportunities.

Internal control also strongly influences financial performance, with a standardized beta coefficient of 0.36. This emphasizes the importance of robust internal control systems in ensuring the accuracy of financial operations, mitigating risks, and maintaining compliance with regulations. Respondents indicated that well-structured internal control mechanisms, such as financial monitoring and procedural adherence, play a vital role in supporting BPKAD's ability to manage its financial resources effectively. By reducing the likelihood of errors and ensuring that financial activities are conducted transparently, internal control systems contribute significantly to the organization's overall financial performance.

The regression model demonstrated a high level of explanatory power, with an R-squared value of 0.81, indicating that 81% of the variation in financial performance can be attributed to the combined effects of leadership and internal control. Hypothesis testing further validated these findings, with leadership and internal control exhibiting statistically significant effects on financial performance, as indicated by p-values below 0.05. The F-test confirmed the overall significance of the model, demonstrating that the independent variables collectively have a substantial impact on financial performance. These findings underscore the importance of addressing leadership and internal control as interconnected factors influencing financial performance. The results suggest that strengthening leadership capacity at BPKAD through targeted training programs and leadership development initiatives could further enhance the organization's financial outcomes. Similarly, improving internal control mechanisms by adopting advanced financial monitoring tools, reinforcing compliance procedures, and fostering a culture of accountability would support more effective financial management.

In summary, the results highlight the critical roles of leadership and internal control in shaping BPKAD's financial performance in the Arfak Mountains Regency. By focusing on these factors, BPKAD can achieve greater efficiency, transparency, and accountability in managing regional finances, thereby contributing to sustainable regional development and reinforcing public trust in its operations. The findings provide valuable insights for policymakers and organizational leaders, offering a roadmap for enhancing financial management practices in similar public institutions.

DISCUSSION

The findings of this study highlight the critical roles of leadership and internal control in shaping the financial performance of the Regional Financial and Asset Management Agency (BPKAD) of the Arfak Mountains Regency. Both variables were found to have significant and positive effects on financial performance, emphasizing their interconnected influence on achieving efficient, transparent, and accountable financial management. This discussion explores these findings in the context of existing literature, practical implications, and opportunities for future improvement.

Leadership emerged as the most influential factor affecting financial performance, with a high standardized beta coefficient ([Bhagat & Bolton, 2019](#)). This finding aligns with existing studies that underscore the importance of effective leadership in driving organizational success. Leaders play a pivotal role in creating a strategic vision,

fostering accountability, and ensuring that resources are allocated efficiently ([Taylor et al., 2014](#)). At BPKAD, the ability of leaders to guide the organization through complex financial challenges is particularly crucial, given the unique financial and developmental needs of the Arfak Mountains Regency. Strong leadership ensures that financial policies are implemented effectively, motivates employees to achieve organizational goals, and establishes a culture of integrity and responsibility ([Dunakhir & Idrus, 2021](#)). These attributes are essential for maintaining public trust and fulfilling the agency's mandate to manage regional finances and assets.

The significant role of internal control in financial performance is consistent with theoretical frameworks and prior research emphasizing its function as a safeguard against financial mismanagement and inefficiency ([Qi et al., 2016](#)). Internal control systems are essential for ensuring compliance with financial regulations, preventing fraud, and maintaining accurate financial reporting ([Chorafas, 2001](#)). At BPKAD, robust internal control mechanisms, such as regular financial audits, risk assessments, and adherence to procedural guidelines, have enhanced financial accountability and operational efficiency. The findings reinforce that a practical internal control framework reduces risks and creates an environment where resources are utilized optimally to achieve financial objectives.

The combined impact of leadership and internal control on financial performance, as indicated by the high R-squared value of the regression model, highlights the synergistic relationship between these variables. Leadership provides the strategic direction and decision-making necessary to implement and sustain internal control systems, while internal control ensures that these strategies are executed effectively ([Yu et al., 2019](#)). This interplay suggests that leadership and internal control should not be viewed in isolation but as complementary elements that drive financial success together. Organizations that invest in leadership development and strengthening internal control mechanisms are more likely to achieve sustained improvements in financial performance ([Zhou et al., 2016](#)).

From a practical perspective, the results of this study offer actionable recommendations for enhancing financial performance at BPKAD. Strengthening leadership capacity through targeted training programs, mentorship initiatives, and professional development opportunities could further improve decision-making and strategic planning within the organization ([Akhtar & Sushil, 2018](#)). Leaders with advanced financial management skills and an understanding of regional economic challenges can more effectively guide their teams and foster innovation in financial practices.

Similarly, enhancing internal control mechanisms by adopting modern financial monitoring tools, automating reporting systems, and conducting regular risk assessments could mitigate financial inefficiencies. Ensuring all employees are well-trained in compliance procedures and understand the importance of accountability would support a culture of integrity within the organization ([Hess & Broughton, 2014](#)). These measures would improve financial outcomes and reinforce public confidence in the agency's ability to manage regional finances transparently and responsibly.

Despite its contributions, this study has limitations that should be acknowledged. The research focused solely on BPKAD in the Arfak Mountains Regency, which may limit the generalizability of the findings to other public institutions or regions. Additionally,

the reliance on self-reported data introduces the potential for response bias, as participants may have provided socially desirable answers. Future research could address these limitations by including a broader range of institutions, employing mixed-method approaches, and exploring additional factors, such as organizational culture, employee engagement, and external stakeholder relationships, that may influence financial performance ([Jing et al., 2019](#)).

In conclusion, this study provides valuable insights into leadership and internal control roles in enhancing financial performance at BPKAD. By adopting a holistic approach that integrates strong leadership and effective internal control systems, the organization can achieve greater efficiency, accountability, and transparency in managing regional finances. These findings contribute to the broader discourse on public financial management and offer a foundation for strategic interventions to optimize financial performance in similar institutional contexts.

CONCLUSION

This study examined the effects of leadership and internal control on the financial performance of the Regional Financial and Asset Management Agency (BPKAD) in the Arfak Mountains Regency. The findings confirm that both leadership and internal control significantly and positively influence financial performance, individually and collectively. Leadership emerged as the most influential factor, underscoring its critical role in providing strategic direction, fostering accountability, and motivating employees to achieve organizational goals. Internal control also demonstrated a substantial impact, highlighting its importance in mitigating financial risks, ensuring compliance, and maintaining the accuracy of financial operations.

The combined influence of these variables emphasizes the interconnected nature of leadership and internal control in driving financial performance. Leadership provides the vision and decision-making necessary to implement adequate internal control systems, while internal control ensures that leadership strategies are executed efficiently and transparently. These factors create a robust framework for optimizing financial outcomes and achieving organizational objectives.

Practically, this study's results offer actionable insights for enhancing financial performance at BPKAD and similar public institutions. Strengthening leadership capacity through targeted training and professional development can improve decision-making, strategic planning, and employee motivation. Concurrently, enhancing internal control systems by adopting modern financial monitoring tools, automating processes, and reinforcing compliance protocols can further support accountability and transparency. These measures will improve financial performance and enhance public trust in the agency's ability to manage regional finances effectively. Despite its significant contributions, this study is not without limitations. The research focused solely on BPKAD in the Arfak Mountains Regency, which may restrict the findings' applicability to other institutions or contexts. Additionally, the reliance on self-reported data introduces potential biases. Future research should consider expanding the scope to include comparative studies across different regions and employing mixed-method approaches to provide a more comprehensive understanding of the factors influencing financial performance.

In conclusion, this study highlights the critical roles of leadership and internal control in shaping financial performance. By addressing these factors holistically, BPKAD and

similar institutions can achieve greater efficiency, accountability, and transparency in financial management. The findings serve as a foundation for strategic interventions and policy recommendations to optimize financial performance and support sustainable regional development.

References

- Akhtar, M., & Sushil, S. (2018). Strategic performance management system in uncertain business environment. In M. Akhtar & S. Sushil, *Business Process Management Journal* (Vol. 24, Issue 4, p. 923). Emerald Publishing Limited. <https://doi.org/10.1108/bpmj-05-2017-0102>
- Bermpei, T., Kalyvas, A. N., & Nguyen, T. C. (2018). Does institutional quality condition the effect of bank regulations and supervision on bank stability? Evidence from emerging and developing economies. In T. Bermpei, A. N. Kalyvas, & T. C. Nguyen, *International Review of Financial Analysis* (Vol. 59, p. 255). Elsevier BV. <https://doi.org/10.1016/j.irfa.2018.06.002>
- Bhagat, S., & Bolton, B. (2019). Corporate governance and firm performance: The sequel. In S. Bhagat & B. Bolton, *Journal of Corporate Finance* (Vol. 58, p. 142). Elsevier BV. <https://doi.org/10.1016/j.jcorpfin.2019.04.006>
- Chorafas, D. N. (2001). Implementing and Auditing the Internal Control System. In D. N. Chorafas, *Palgrave Macmillan UK eBooks*. Palgrave Macmillan. <https://doi.org/10.1057/9780230597860>
- Dunakhir, S., & Idrus, M. (2021). Governing of Village Fund in South Sulawesi. In S. Dunakhir & M. Idrus, *Hasanuddin Economics and Business Review* (Vol. 5, Issue 1, p. 8). <https://doi.org/10.26487/hebr.v5i1.2734>
- Gu, Y., & Yuan, F. (2020). Internal Control, Financial Flexibility and Corporate Performance – Based on empirical analysis of listed companies in information Technology industry. In Y. Gu & F. Yuan, *Journal of Physics Conference Series* (Vol. 1607, Issue 1, p. 12118). IOP Publishing. <https://doi.org/10.1088/1742-6596/1607/1/012118>
- Hess, M. F., & Broughton, E. (2014). Fostering an ethical organization from the bottom up and the outside in. In M. F. Hess & E. Broughton, *Business Horizons* (Vol. 57, Issue 4, p. 541). Elsevier BV. <https://doi.org/10.1016/j.bushor.2014.02.004>
- Jing, C., Keasey, K., Lim, I., & Xu, B. (2019). Financial constraints and employee satisfaction. In C. Jing, K. Keasey, I. Lim, & B. Xu, *Economics Letters* (Vol. 183, p. 108599). Elsevier BV. <https://doi.org/10.1016/j.econlet.2019.108599>
- Mutya, T., & Josephine, A. (2018). Financial Management a Wheel to Financial Performance of Local Governments in Uganda: A Case Study of Tororo Municipal Council. In T. Mutya & A. Josephine, *Journal of Business & Financial Affairs* (Vol. 7, Issue 2). OMICS Publishing Group. <https://doi.org/10.4172/2167-0234.1000330>
- Nzibonera, E., & Ninsiima, J. (2020). Internal Financial Controls and Working Capital Management in Public Universities in Uganda: A Case Study of Makerere University Kampala. In E. Nzibonera & J. Ninsiima, *International Journal of Business Administration* (Vol. 11, Issue 3, p. 72). Sciedu Press. <https://doi.org/10.5430/ijba.v11n3p72>

- Oduor, J., & Kebba, J. (2019). Financial Sector Regulation and Governance in Africa. In J. Oduor & J. Kebba, Elsevier eBooks (p. 137). Elsevier BV. <https://doi.org/10.1016/b978-0-12-814164-9.00007-4>
- Oyaro, C. O., & Angwenyi, O. R. (2016). Internal Control and Revenue Fund Management among County Governments in Kenya. In C. O. Oyaro & O. R. Angwenyi, *International Journal of Accounting and Financial Reporting* (Vol. 6, Issue 1, p. 200). <https://doi.org/10.5296/ijaf.v6i1.9746>
- Petrovits, C., Shakespeare, C., & Shih, A. (2010). The Causes and Consequences of Internal Control Problems in Nonprofit Organizations. In C. Petrovits, C. Shakespeare, & A. Shih, *The Accounting Review* (Vol. 86, Issue 1, p. 325). American Accounting Association. <https://doi.org/10.2308/accr.00000012>
- Qi, B., Li, L., Zhou, Q., & Sun, J. (2016). Does internal control over financial reporting really alleviate agency conflicts? In B. Qi, L. Li, Q. Zhou, & J. Sun, *Accounting and Finance* (Vol. 57, Issue 4, p. 1101). Wiley. <https://doi.org/10.1111/acfi.12198>
- Rahmayati, A., & Chrystiana, E. T. (2019). Transparency and Accountability of Village Fund Allocation Management in Wironanggan, Gatak, Sukoharjo. In A. Rahmayati & E. T. Chrystiana, *Journal of International Conference Proceedings* (Vol. 2, Issue 2, p. 30). <https://doi.org/10.32535/jicp.v2i2.600>
- Schobel, K., & Pond, G. (2020). Public CFO competencies – A National Defence case study examining the balance between financial and strategic priorities. In K. Schobel & G. Pond, *Canadian Public Administration* (Vol. 63, Issue 2, p. 229). Wiley. <https://doi.org/10.1111/capa.12366>
- Taylor, C. M., Cornelius, C. J., & Colvin, K. (2014). Visionary leadership and its relationship to organizational effectiveness. In C. M. Taylor, C. J. Cornelius, & K. Colvin, *Leadership & Organization Development Journal* (Vol. 35, Issue 6, p. 566). Emerald Publishing Limited. <https://doi.org/10.1108/lodj-10-2012-0130>
- Waal, A. A. de. (2010). Achieving High Performance in the Public Sector. In A. A. de Waal, *Public Performance & Management Review* (Vol. 34, Issue 1, p. 81). Taylor & Francis. <https://doi.org/10.2753/pmr1530-9576340105>
- Yu, L., Han, Z., & Xiao, S. (2019). Internal Control, Financial Governance and Corporate Strategic Objectives Achievement. In L. Yu, Z. Han, & S. Xiao, *Accounting and Finance Research* (Vol. 8, Issue 3, p. 157). Sciedu Press. <https://doi.org/10.5430/afr.v8n3p157>
- Zhou, H., Chen, H., & Zhi-rong, C. (2016). Internal Control, Corporate Life Cycle, and Firm Performance. In H. Zhou, H. Chen, & C. Zhi-rong, *International finance review* (p. 189). <https://doi.org/10.1108/s1569-376720160000017013>