

## The influence of financial reporting quality and organizational culture as mediation variables on the performance of public organizations

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### Abstract

This research aims to test and analyze the influence of financial reporting quality on the performance of public organizations with organizational culture as a moderating variable. This type of research is quantitative. The population in this research are public organization in the city of Bengkulu. The research model and hypothesis testing were carried out on 50 respondents obtained from leaders, treasurers, secretaries and financial staff of public organizations in the city of Bengkulu using SmartPLS4 software. The results of the research show that the quality of financial reporting has a positive effect on the performance of public organizations, the quality of financial reporting has a positive effect on organizational culture, organizational culture has a positive effect on the performance of public organizations, organizational culture mediates the relationship between the quality of financial reporting and the performance of public organizations in the city of Bengkulu.

Keywords: Quality Of Financial Reporting, Organizational Culture, Public Organization Performance

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### INTRODUCTION

In the modern era, public organizations face increasing challenges and competition to provide high-quality public services and achieve goals. The quality of financial reporting has become a crucial issue in public sector reform in Indonesia, but the achievement of the WTP (Unqualified Reasonable) title by many public organizations has not been followed by an improvement in the performance of local government administration as reflected in the low achievement of the Bureaucratic Reform Index. Non-profit or non-governmental organizations include volunteer organizations, hospitals, colleges and universities, foundations, non-governmental organizations (NGOs), religious organizations (e.g. churches and mosques), political parties and so on. In Bengkulu City, these organizations still face some problems in terms of financial reporting and organizational culture. There are still some organizations that do not prepare cash flow statements so that there is no detailed information about the organization's cash inflows and outflows that are useful to provide an overview of the allocation of cash into various organizational activities, so this is also related to the organizational culture that is not yet strong and not good. This research conducted a case study in Bengkulu City, which was selected based on its performance achievements in recent years that showed a positive trend but still had the potential to be improved.

The novelty of this study is to analyze the role of organizational culture as a mediating variable in the relationship between the quality of financial reporting and the performance of public organizations in the city of Bengkulu based on stewardship theory, In the hope of enriching empirical studies on this under-researched topic and providing evidence of the importance of a multidimensional perspective through the incorporation of two independent variables, namely financial reporting and organizational culture, in one model to explain the performance of public sector organizations whose dynamics are different from those of for-profit organizations, the research results obtained from this case study in Bengkulu city are expected to serve as a reference for further research on similar topics, both comparative research between regions and with more complex models.

Stewardship theory is a relevant theoretical foundation, given its crucial role in understanding the dynamics between public entities, financial reporting, and organizational culture. The foundation of the paradigm that supports stewardship and organizational sustainability is having forward-thinking leaders who are prepared to put the long-term goals of the organization ahead of their own.

The quality of financial statements reflects the conformity of financial information presented by an entity with applicable accounting standards. Good quality financial reports indicate that the information contained in them can be used in decision making. The quality of financial reporting is not just recording numbers, but also reflects the transparency, accountability and integrity of the organization. The quality of financial reporting also has an impact on the performance of certain activities of the organization.

No less important factor affecting organizational performance than the quality of financial reporting is organizational culture. In an organization, of course, there are many factors that influence a person to achieve his goals, while the running of the organization is influenced by the behavior of many individuals who have their own interests. Therefore, organizational culture is very important, because it is the habits that exist in the organization. These habits regulate the norms of behavior that must be followed by members of the organization, resulting in a productive culture. A productive culture is a culture that can make the organization strong and organizational goals can be achieved.

In an individual, group or organization, an assessment is needed to determine the ultimate goal to be achieved or often referred to as performance. This performance assessment is very important because it is used as a measure of the success of the organization's performance in achieving its mission and the assessment can be used as input for improving or improving the performance of the organization concerned. Performance in the context of public sector organizations is a measure of achievement / results in managing and running an organization which relates to everything that the organization will, is and has done in a certain period of time.

In this study, organizational culture acts as an important link that enables the exploration of the complex relationship between good financial reporting quality and public organization performance. As a result, organizational culture has the role of a mediating factor in this study. Organizational culture is important for understanding how organizational norms, values and beliefs influence the relationship between financial reporting quality and performance. As defined by Robbins (2013), organizational culture is a set of values that distinguishes one organization from another among its members. The shared understanding among all members that distinguishes the company is an important aspect of organizational culture. Improving the quality of public services in public organizations requires a strong emphasis on performance evaluation. To improve public service standards, performance appraisal has a very significant role in the public organization environment. In the context of public organizations, performance evaluation is used to assess the achievements that have been made in the previous period (Wirnipin et al., 2015).

Therefore, this study aims to analyze the effect of financial reporting quality and organizational culture as mediating variables on the performance of public organizations with a case study in Bengkulu city. This research also contributes to our knowledge about the mediating role of high-quality organizational culture on the effect of financial reporting quality based on stewardship theory in influencing the performance of public organizations. The results of this study are expected to gain a thorough understanding of how the influence of financial reporting quality and positive organizational culture can work together to improve the performance and operational efficiency of public organizations in the face of various possibilities and challenges of modern business. In addition, this research is expected to stimulate critical thinking about leadership techniques in managing an organization.

## **LITERATUR REVIEW AND HYPHOTESIS DEVELOPMENT**

### **Literature Review**

Stewardship theory is a theory that has roots in psychology and sociology that is designed to explain situations where leaders are stewards and act in the interests of the owner (Donaldson & Davis, 1991). In stewardship theory, managers or leaders will behave according to mutual interests. When the interests of the steward and the owner are not the same, the steward will try to cooperate rather than oppose it, because the steward feels that the common interest and behaving in accordance with the owner's behavior is a rational consideration because the steward looks more at efforts to achieve organizational goals.

Stewards prefer collaboration over conflict when their interests and the interests of the actors (owners) are not aligned (Muth & Donaldson, 1998). This theoretical approach emphasizes cooperation

as a more beneficial strategy in achieving organizational success (Davis et al., 2018). Stewardship theory explains that public managers and officials should be responsible for public finances and resources. This research offers a new theory of how organizational culture and financial reporting quality affect the performance of public organizations. Public organizations that can meet these requirements can demonstrate a level of accountability and transparency in the management of public organizations (Vidyasari & Suryono, 2021).

The quality of financial reporting is determined by whether the financial information presented in the financial statements is properly and accurately prepared in accordance with accounting standards and can be understood by users of financial reporting information (Ikriyati & Aprila, 2019). The quality of financial statements refers to the ability of the information conveyed in the financial statements to be understood, free from material deviations or errors, and used for reliable decision making (Defitri, 2018). To achieve high quality financial information, qualitative characteristics of financial statements are required, which are normative requirements to achieve the desired quality of financial statements. Qualitative characteristics included in PP No. 71 of 2010 as indicators of measuring the quality of financial statements: relevance, reliability, comparability, understandability. Because financial reports are the basis for decision making, these reports must be submitted to the government in a timely manner and can be trusted. Apart from that, financial reports must also contain adequate information that can influence decision making (Lestari & Dewi, 2020).

Organizational culture is a combination of values, communication, beliefs, and actions formulated to guide individuals. Organizational culture as stated by Mercer in (Harmaily, 2019) formulation of organizational culture has the totality of behavioral patterns and characteristics of an organization's employees' thinking, beliefs, services, behavior and actions of employees. So we can interpret that organizational culture is formed by the behavior of each individual or you could say the actions carried out within the organization to achieve the stated desires of the organization. The existing understanding can be explained that organizational culture refers more to the system that exists or is built in an organization so that it can improve employee performance in carrying out public services (Ellys & Ie, 2020). Every member in the organization is aware that organizational culture influences the way they work indirectly. A framework that guides workers' daily activities, decisions and behavior in achieving.

The concept of organizational performance can be interpreted as the degree of achievement of results. Performance is the result of a series of process activities carried out to achieve certain organizational goals. Performance appraisal is very important because it functions as a benchmark for the success of achieving organizational goals. Nurjaya (2021) states that performance is the extent to which a person achieves results when carrying out certain tasks. Putri (2020) states that performance is the result of the functioning of the work of an individual or group in an organization over a certain period of time and reflects the extent to which the individual or group fulfills job requirements to achieve organizational goals. Lilyana et al. (2021) states that performance is a work result achieved by completing assigned tasks and responsibilities within a certain period of time. Sedarmayanti is published in Burhannudin et al. (2019) Employee performance is the ability of individuals or groups in an organization to fulfill their duties and responsibilities to achieve organizational goals in a halal manner, without violating the law, and in accordance with the morals and ethics to be achieved. that it is the performance in running it.

## **Hyphotesis Development**

### **The effect of financial reporting quality on the performance of public organizations**

The performance of public organizations is influenced by the quality of financial reporting. The implication of stewardship theory for this research is that it can explain the existence of an institution with good performance and is able to account for the finances entrusted to it, so that economic goals are met and the welfare of the community can be maximally achieved. To carry out this responsibility, stewards (leaders and internal auditors) direct all their abilities and expertise in streamlining internal control to produce quality financial information reports. Good financial reporting can improve organizational performance if it provides interested parties with accurate and relevant information (Kroll, 2015; Kobayashi et al., 2016). According to the research conducted by (Colin & Anastasios, 2010), The performance of public organizations is positively influenced by the quality of financial reporting. Studies

conducted by (Nirwana & Haliah, 2018), The quality of financial reporting has a positive impact on the performance of public institutions in Indonesia. According to research (Iran et al., 2021), performance is positively affected by the quality of financial reporting. A hypothesis is developed based on this explanation:

H1: Financial reporting quality has a positive effect on performance

### **The effect of financial reporting quality on organizational culture**

Based on the assumptions of stewardship theory, in principle, accounting is a means of self-control, as a means of reporting manager activities on the management of human resources and the quality of financial reporting. With limitations, resource owners hand over the mandate of resource management to other parties (stewards/management) who are better prepared. The contractual relationship between principals and stewards is based on trust, collectively in accordance with the objectives of the organization. Excellent financial reporting produces precise and relevant data, while a good organizational culture fosters a cooperative and efficient work atmosphere (Mahpud et al., 2022). The quality of financial reporting has a positive influence on organizational culture, according to research (Fanani & Jalil, 2016; Ayem & Karlina, 2021; Cahyadi & Kuraesin, 2022).

H2: The quality of financial reporting has a positive effect on organizational culture

### **The influence of organizational culture on the performance of public organizations**

Public organizational culture is a critical component that can influence organizational success and performance. Managers who are aware of their responsibilities as "stewards" are likely to create an organizational culture that supports accountability and discourages behaviors that are detrimental to the organization. Particularly in achieving the organization's vision, mission and goals, organizational culture should have a positive influence on organizational members and the organization itself.

A strong and supportive organizational culture has the ability to transform management practices into behaviors that benefit the organization, which in turn improves overall organizational performance (Davis et al., 2018).

A strong and supportive organizational culture can motivate members and stewards to do their best work and take responsibility for their results (Cameron & Quinn, 1999; Hanif et al., 2012;). Studies conducted by Prasetyono & Nurul (2007) organizational culture greatly affects organizational performance. Employees or staff feel supported and motivated in this workplace, which increases productivity and work quality (Diener et al., 2018). Therefore, a good organizational culture produces qualified individuals, which in turn improves organizational performance. Research conducted previously (Soedjono, 2005; Prasetyono dan Kompyurini, 2008; Meirina & Eflin, 2023; Oktavia & Fernos, 2023), states that organizational culture has a positive impact on organizational performance. From this explanation, a hypothesis is built:

H3: Organizational culture has a positive effect on performance

### **The role of organizational culture in mediating the relationship between financial reporting quality and public organization performance**

Stewardship theory assumes that executives, leaders, and professionals are good stewards for their organizations. They are not motivated by individual goals but rather by organizational performance outcome goals. An organizational culture that supports stewardship principles, such as service orientation, integrity, honesty, accountability and trust can strengthen employees' steward commitment.

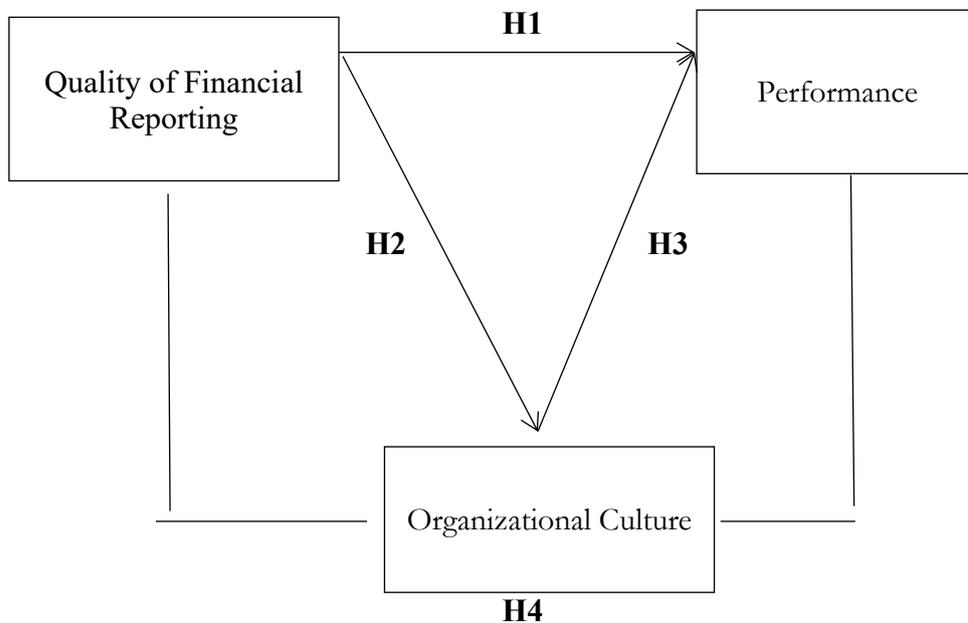
This in turn can strengthen the effect of implementing financial reporting quality best practices on achieving optimal organizational performance. In other words, organizational culture acts as a mediating variable in the relationship between financial reporting quality and public organization performance. The better the organizational culture implemented, the stronger the positive effect of financial reporting quality on performance.

Good financial reporting quality can shape an organizational culture that is transparent, accountable, and integrity-oriented (H2). In addition, a strong organizational culture can motivate administrators and organizational members to work optimally and responsibly, which in turn improves

organizational performance (H3). The following hypothesis supports researchers that organizational culture will act as a mediator between financial reporting quality and performance. Therefore, the hypothesis formulated is as follows:

H4: Organizational culture mediates the relationship between financial reporting quality and performance.

Proposed model of the related hypotheses:



**Figure 1.** Proposed model of the related hypotheses

**METHODS**

**Type of Research and Data Collection**

This research uses a quantitative approach with a survey method. According to Sugiyono (2019), the survey method involves the use of questionnaires as a data collection tool, both in large and small populations. The research population came from non-profit public sector organizations operating in Bengkulu City, totaling 50 consisting of 37 foundations, 1 non-governmental organization, and 12 political parties. The sampling technique was carried out using the saturated sampling method or census, where the entire population of organizations that already had financial reports in accordance with accounting standards were included in this study. This study used a questionnaire as a data collection technique. Data analysis uses outer model techniques consisting of reliability tests and validity tests and inner models consisting of the coefficient of determination and hypothesis testing. In Table 1.1, presents descriptive statistics regarding respondent data.

**Table 1.1** Characteristics of Respondents

Criterion		Frequency	Percentage
Age	20 s/d 35	6	12%
	36 s/d 45	33	66%
	46 s/d 55	11	22%
	>55		0%
Amount		50	100%
Gender	Man	34	68%
	Woman	16	32%
Amount		50	100%
Last Education	SMA	5	10%

Criterion		Frequency	Percentage
	S1	43	86%
	S2	2	4%
Amount		50	100%
Position	Leader	11	22%
	Secretary	6	12%
	Treasurer	21	42%
	Staff of the Sub Division of Finance	12	24%
Amount		50	100%
Length of Work	< 5 Year	6	12%
	5-10 Year	28	56%
	11- 15 Year	14	28%
	> 15 Year	2	4%
Amount		50	100%

*Source: Primary Data (Processed, 2023)*

## Measurement

Researchers used fifteen statement items to evaluate the quality of financial reporting. These items include important qualitative aspects and qualitative aspects of improving information about financial reporting (IPSASB, 2014). A ten-item scale (Sulaksono, H., 2015: 14) was used to assess organizational culture. A seven-item scale that has been designed by (Verbeeten & Speklé, 2015) and three additional items adapted from Robbins (2016:260) were used to measure the performance of public organizations. Researchers used SmartPLS4 software for hypothesis testing with full model structural moderling (SEM) and partial least squares (PLS) analysis.

## RESULTS AND DISCUSSIONS

### Results of data analysis

#### Convergent Validity

Using SmartPLS, the outer model evaluation items are calculated and the outer loading reflects the degree of correlation between the constructs of each measurement item (indicator). Thus, the convergent validity of the measurement model using reflective indicators is evaluated. Reflective indicators are considered valid if their correlation with the measured construct exceeds 0.7 and the Average Variance Extracted (AVE) value of each variable is more than 0.5, as explained by Abdillah & Jogiyanto (2015). The measurement results show that the outer loading value of all variables exceeds 0.7, indicating that the indicator is valid. In addition, all variables also have an AVE value above 0.5, as illustrated in Table 1.2. This indicates that all constructs meet the value requirements in the convergent validity test.

**Table 1.2** Convergent Validity

Variable	Item Indicator	Validity Convergent		Status	Variable	Item Indicator	Validity Convergent		Status
		Outer Loading	AVE				Outer Loading	AVE	
Quality of Financial Reporting	X1	0.865	0.784	Valid	Performance	Z1	0.880	0.774	Valid
	X10	0.896		Valid		Z10	0.921		Valid
	X11	0.872		Valid		Z2	0.880		Valid
	X12	0.877		Valid		Z3	0.908		Valid
	X13	0.897		Valid		Z4	0.893		Valid
	X14	0.900		Valid		Z5	0.889		Valid
	X2	0.900		Valid		Z6	0.860		Valid
	X3	0.908		Valid		Z7	0.750		Valid
	X4	0.903		Valid		Z8	0.898		Valid
	X5	0.869		Valid		Z9	0.906		Valid
	X6	0.869							
	X7	0.899							
	X8	0.856							

Variable	Item Indicator	Validity Convergent		Status	Variable	Item Indicator	Validity Convergent		Status
		Outer Loading	AVE				Outer Loading	AVE	
	X9	0.883							
Organizational Culture	Y1	0.856	0.767	Valid					
	Y10	0.853		Valid					
	Y2	0.925		Valid					
	Y3	0.890		Valid					
	Y4	0.891		Valid					
	Y5	0.862		Valid					
	Y6	0.849		Valid					
	Y7	0.871		Valid					
	Y8	0.857		Valid					
	Y9	0.903		Valid					

Source: SmartPLS4 Output (Processed, 2023)

Composite Reliability, Cronbach’s Alpha, & Average Variance Extracted (AVE)

Composite Reliability, Cronbach’s Alpha, and Average Variance Extracted (AVE) tests can be seen in table 1.3:

**Table 1.3** Composite Reliability, Cronbach’s Alpha, & AVE

Variable	Cronbach's alpha	Composite reliability	AVE	AVE Square Root
Quality of Financial Reporting	0.979	0.980	0.784	0.885
Organizational Culture	0.966	0.968	0.767	0.876
Performance	0.967	0.970	0.774	0.880

Source: SmartPLS4 Output (Processed, 2023)

Table 1.3 shows that, financial reporting quality variables, organizational culture and performance have good reliability estimates because the Cronbach's alpha and composite reliability values exceed 0.7. The validity is also good because the AVE value is more than 0.5. This shows that the construct meets reliability standards. The requirement for a construct to have good discriminant validity is that the AVE root value must be greater than the correlation coefficient value. The value of AVE and the square root value of AVE, it can be seen that overall the square root value of AVE is higher than the correlation between constructs. So it can be said that the data has met the requirements of discriminant validity.

**Discriminant Validity**

Heterotrait Monotrait (HTMT) is suggested (Hair et al., 2019) because it is considered a more sensitive or precise discriminant validity metric. When the HTMT value is less than 0.90, discriminant validity is achieved. In table 1.4. shows that discriminant validity is achieved or accepted.

**Table 1.4** HTMT

Variable	Quality of Financial Reporting	Organizational Culture	Performance
Quality of Financial Reporting			
Organizational Culture	0.658		
Performance	0.683	0.777	

Source: SmartPLS4 Output (Processed, 2023)

**Adjusted R-Square**

The adjusted R-square is used to evaluate the percentage of independent variables (such as financial reporting quality and the mediating influence of organizational culture) on the dependent variable, namely the performance of public organizations. The R-Square measurement is as follows:

**Table 1.5** R-Square

Variable	R-square	R-square adjusted
Organizational Culture (Y)	0.421	0.408
Performance (Z)	0.630	0.612

Source: SmartPLS4 Output (Processed, 2023)

Table 1.5 shows that the Adjusted R-Square value for the Organizational Performance variable (Z) reaches 0.612 (61.2%), indicating that the quality of financial reporting (X) and organizational culture (Y) accounts for 61.2% of the influence on organizational performance. Another 38.8% is explained by other factors not considered in this study. Meanwhile, the Adjusted R-Square value for the organizational culture variable (Y) is 0.408 (40.8%), indicating that the quality of financial reporting (X) explains 40.8% of the influence on organizational culture, while the remaining 59.2% is influenced by other variables that are not the focus of this study.

#### Multicollinear

Before testing the hypotheses in the structural framework, an important step is to check for potential multicollinearity between variables using the inner VIF statistic. Inner VIF (Variance Inflated Factor) multicollinearity test, as follows:

**Table 1.6** Multikolinier Inner VIF

Variable	Performance	Organizational Culture	Quality of Financial Reporting
Quality of Financial Reporting	1.727	1.000	
Organizational culture	1.727		
Performance			

Source: SmartPLS4 Output (Processed, 2023)

The estimation results in Table 1.6 show that the inner VIF value is  $< 5$ , which indicates a low level of multicollinearity between variables, this indicates that the parameter estimates in PLS-SEM are robust and unbiased.

#### Results of Hypothesis Test

Before explaining the hypothesis test, it can be seen that the direct and indirect effects are that if the statistical T value is greater than 1.960 and the p value is smaller than 0.05 then the effect is significant. From the results of hypothesis testing presented in Table 1.7, it shows that the fourth hypothesis (H1, H2, H3, H4) can be accepted or has a significant effect.

Hypothesis testing not only shows that a variable has a significant influence, but also shows how big the influence is (effect size) on the related variable (Hair et al., 2021). In this situation, the f-squared value can provide information on the extent of direct influence at the structural level. The classification of f-squared with a value of 0.02 as low, 0.15 as medium, and 0.35 as high can give an idea of the magnitude of the influence of the variable (Hair et al., 2021). Hypothesis testing of direct and indirect effects can be seen in table 1.7:

**Table 1.7** Direct Effect and Indirect Effect

Hypothesis	Relationship between Variables	Path Coefficient	P-Value	95% Path Coefficient Confidence Interval		F Square	T statistik	Conclusion
				Lower Limit	Upper Limit			
<i>Direct Effect</i>								
H1	Quality of Financial Performance -> Performance	0.307	0.021	0.068	0.534	0.147	2.069	Accepted
H2	Quality of Financial Reporting -> Organizational Culture	0.649	0.002	0.234	0.817	0.727	2.885	Accepted
H3	Organizational Culture -> Performance	0.559	0.000	0.296	0.744	0.489	4.111	Accepted
<i>Indirect Effect</i>								
H4	Quality of Financial Reporting -> Organizational Culture -> Performance	0.363	0.009	0.085	0.517	0.131	2.406	Accepted

*Source: SmartPLS4 Output (Processed, 2023)*

Indirect effect in Lachowicz et al. (2018), calculated using the upsilon (v) statistic by squaring the path coefficient of the direct effect on organizational culture. The interpretation of the upsilon (v) statistical value follows the criteria proposed by Ogbeibu and colleagues (2021), namely 0.01 (low mediation effect), 0.075 (medium mediation effect), and 0.175 (high mediation effect). The calculation below aims to determine the level of mediation effect using upsilon (v):

$$\begin{aligned}
 \text{Efek size mediasi upsilon (v)} &= \beta^2MX\beta^2YM^{\circ}X^{\circ} \\
 &= (0,649)^2 \times (0,559)^2 \\
 &= 0,131
 \end{aligned}$$

**Discussion**

Then we can explain the results of the hypothesis test as follows:

- 1) H1 is accepted, indicating that there is a positive influence between financial reporting quality and performance in public organizations (t-statistic 2.069 > 1.960 and p-value 0.021 < 0.05). Positive changes in the quality of financial reporting contribute to improved organizational performance, with a 95% confidence level ranging from 0.068 to 0.534. However, the effect of financial information quality on organizational performance was structurally moderate (F Square = 0.147). Therefore, improving the quality of financial reporting is very important because it can improve organizational performance up to 0.534.

This finding supports the stewardship theory that emphasizes the importance of honesty, integrity, and responsibility in organizational financial management (Donaldson & Davis, 1991). Based on the test results, it can be explained that empirically, public organizations in Bengkulu City have shown management practices that are in accordance with the perspective of stewardship theory, where organizational actors tend to have good steward attitudes and behaviors through an emphasis on the quality of financial reporting in an effort to improve organizational performance. This indicates that the management of public sector organizations in Bengkulu City has tried to prioritize the principles of accountability and transparency in financial reporting, as a form of accountability for the mandate given to them by the community.

The implementation of financial reporting quality best practices is in line with the principles of stewardship and contributes to increasing public trust in the performance of public sector organizations. Although there are still opportunities to increase the contribution of financial reporting

quality in improving the performance of public organizations more optimally, this positive trend needs to be maintained and improved to achieve excellent performance and quality public services in Bengkulu City.

This result supports the results of previous research (Colin & Anastasios, 2010; Kroll, 2015; Nirwana & Haliah, 2018) which shows that the quality of financial information has a positive impact on organizational performance. Recent studies (Tran et al., 2021) also confirm that the quality of financial reporting has a positive impact on organizational performance.

- 2) H2 is accepted, indicating that there is a positive influence between the quality of financial reporting on organizational culture (t-statistic  $2.885 > 1.960$  and p-value  $0.002 < 0.05$ ). Any increase in the quality of financial reporting reflects a positive organizational culture, with a 95% confidence level ranging from 0.234 to 0.817. The effect of financial information quality on organizational culture is highly structural (F Square = 0.727). Therefore, improving the quality of financial reporting is considered important in achieving a better organizational culture, with a potential increase of up to 0.817.

The results of testing this second hypothesis further strengthen the evidence that in the context of public organizations in Bengkulu City, the application of stewardship principles is quite strong, reflected in the positive and significant influence between the quality of financial reporting and employee perceptions of organizational culture. The better and more standardized the financial reporting practices, the more public employees perceive that the organization has a positive culture characterized by service orientation, integrity, honesty, accountability, collaboration and trust among employees.

This also confirms that the efforts of leaders and management of public organizations in Bengkulu City to improve financial reporting transparency and accountability have been able to shape positive perceptions and strengthen public employees' stewardship commitment to their organizations. Thus, continuous improvement in the quality of financial reporting is important to continue to be strengthened, because it has a double impact, which not only improves organizational performance but also leads to the formation of a more positive organizational culture in the work environment of public organizations in Bengkulu City.

This result supports previous researchers (Fanani & Jalil, 2016; Ayem & Karlina, 2021; Cahyadi & Kuraesin, 2022) who found that the quality of financial reporting has a positive impact on organizational culture.

- 3) H3 is accepted, that there is a positive influence between organizational culture on performance in public organizations (t-statistic  $4.111 > 1.960$  and p-value  $0.000 < 0.05$ ). Improving organizational culture improves organizational performance, with a 95% confidence level ranging from 0.296 to 0.744. The effect of organizational culture on organizational performance is moderate in terms of structure (F Square = 0.489). Therefore, improving organizational culture is critical to achieving better organizational performance, with potential benefits up to 0.744.

The results of testing the third hypothesis support the argument of stewardship theory that by building a positive and conducive organizational culture, employees' stewardship practices and commitment to their organization will become stronger. This will ultimately improve the overall performance of public organizations. The results of this study prove that in the Bengkulu City government organization, efforts to strengthen an organizational culture that is service-oriented, integrity, accountability, and collaboration are proven to be able to improve organizational performance.

Thus, the leadership and management of public organizations in Bengkulu City need to continuously ensure the growth of positive organizational cultural values, in line with the principles of stewardship. For example, through intensive dialectics to give and receive constructive input and feedback among employees. These efforts will further strengthen the stewardship of the state civil apparatus and ultimately improve performance accountability and the quality of public services provided to the people of Bengkulu City.

This result supports previous research (Soedjono, 2005; Meirina & Eflin, 2023; Oktavia & Fernos, 2023) which found that organizational culture has a positive effect on the performance of public organizations.

- 4) H4 is accepted, that organizational culture has a positive indirect effect as a mediator in the relationship between the effect of financial reporting quality on performance in public organizations (t-statistic  $2.406 > 1.960$  and p-value  $0.009 < 0.05$ ). However, in explaining the statistical value, the mediating role of organizational culture is still at a moderate level (Upsilon V = 0.131), which is confirmed by Ogbeibu et al. (2021). By improving organizational culture within public organizations, within the 95% confidence interval, this mediating role may increase to 0.517.

The results of testing the fourth hypothesis provide additional insight that in the public organization environment of Bengkulu City, efforts to improve the quality of financial reporting practices not only have a direct impact on improving organizational performance, but also indirectly by strengthening organizational culture which in turn improves organizational performance. In other words, the application of the principles of transparency and accountability in financial reporting can create a more conducive organizational cultural climate in the work environment of public organizations. This in turn will also strengthen the stewardship behavior and commitment of employees to their organization, which is manifested in the achievement of more optimal performance. A strong and positive organizational culture creates an environment in which decisions that support the growth and sustainability of the organization can be made, in accordance with the core principles in stewardship theory.

A strong and supportive organizational culture has the ability to transform management activities into behaviors that benefit the organization, thereby improving overall organizational performance. (Davis et al., 2018).

The implication of this research is that it provides empirical evidence regarding the effect of financial reporting quality and organizational culture on the performance of public organizations which can be taken into consideration for public organizations in efforts to improve organizational performance through improving the financial reporting system and optimizing organizational culture and become a reference for further research and development of public sector management science related to factors that influence performance. By improving the quality of financial reporting and building a positive organizational culture to improve the performance of public organizations in Bengkulu City, which needs to be followed up with efforts to increase the accountability and transparency of financial reports and strengthen the values of integrity, service orientation, and collaboration between employees through various sustainable policies and programs.

## CONCLUSION

This study provides empirical evidence of both direct and indirect impacts, where culture serves as a mediator between financial reporting quality and public organization performance. The results show that the implementation of financial reports that are transparent, relevant, understandable and comparable and a strong organizational culture will achieve good financial reporting quality will directly impact on improving performance. From these results it can be concluded that:

1. There is a significant direct effect of the quality of financial reporting on the performance of public organizations.
2. There is a significant direct effect of the quality of financial reporting on organizational culture
3. There is a significant direct effect of organizational culture on the performance of public organizations
4. There is a significant indirect effect of organizational culture on the quality of financial reporting on the performance of public organizations

The limitations of this study lie in the small sample size and only covering Bengkulu city, so the results may not be directly applicable to all public organizations and using subjective data from surveys obtained from leaders, secretaries, treasurers and finance sub-section staff who self-reported their performance results: leaders, secretaries, treasurers and finance sub-section staff who self-reported their performance results. Suggestions for future research can add objective variables and data to provide further or in-depth understanding of the factors that influence organizational performance.

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