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- About
- Focus & Scope
- Abstracting & Indexing
- Editorial Team
- Online Submissions
- Author Guidelines
- Article Processing Charges
- Publication Ethic
- Open Access Policy
- Contact Us

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- About
- Focus & Scope
- Abstracting & Indexing
- Editorial Team
- Online Submissions
- Author Guidelines
- Article Processing Charges
- Publication Ethic
- Open Access Policy
- Contact Us


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### JOURNAL ISSN BARCODE



1410-2420 (print)



2528-6528 (online)

Home > Archives > **Vol 17, No 1 (2013)**

### VOL 17, NO 1 (2013)

#### TABLE OF CONTENTS

#### Articles

**THE USE OF MANAGEMENT ACCOUNTING INFORMATION IN HOSPITAL MANAGEMENT** PDF 1-12

Anastasia Susty Ambarriani<sup>(1)</sup>,  
(1) Accounting Department, Faculty of Economics Universitas Atmajaya Yogyakarta  
DOI : [10.20885/jaa.vol17.iss1.art1](#)

**FISCAL POLICY DISCLOSURE IN INDONESIAN LOCAL GOVERNMENTS** PDF 13-30

Johan Arifin<sup>(1)</sup>, Greg Tower<sup>(2)</sup>, Stacey Porter<sup>(3)</sup>,  
(1) Universitas Islam Indonesia, Curtin University Perth Australia  
(2) Curtin University, Perth Australia  
(3) Curtin University, Perth Australia  
DOI : [10.20885/jaa.vol17.iss1.art2](#)

**TRIPLE BOTTOM LINE REPORTING DALAM PELAPORAN TAHUNAN PERUSAHAAN GO PUBLIC DI INDONESIA** PDF 31-42

Muqodim Muqodim<sup>(1)</sup>, Joko Susilo<sup>(2)</sup>,  
(1) Universitas Islam Indonesia  
(2) Universitas Islam Indonesia  
DOI : [10.20885/jaa.vol17.iss1.art3](#)

**PENGARUH SIKAP, NORMA SUBYEKTIF, DAN KONTROL PERILAKU PADA PENGUNGKAPAN TANGGUNG JAWAB SOSIAL** PDF 43-56

Nurofik Nurofik<sup>(1)</sup>,  
(1) Sekolah Tinggi Ilmu Ekonomi YKPN Yogyakarta  
DOI : [10.20885/jaa.vol17.iss1.art4](#)

**PENGARUH PENGENDALIAN INTERNAL DAN GOOD CORPORATE GOVERNANCE TERHADAP PEN CEGAHAN FRAUD** PDF 57-74


Rusman Soleman<sup>(1)</sup>,  
(1) Fakultas Ekonomi, Universitas Khairun Ternate  
DOI : [10.20885/jaa.vol17.iss1.art5](#)

**THE DETERMINANTS OF CORPORATE COMMUNITY CONTRIBUTIONS: SOME INSIGHTS FROM INDONESIAN FIRMS** PDF 75-85

Tarmizi Achmad<sup>(1)</sup>, Faisal Faisal<sup>(2)</sup>,  
(1) Program Studi Akuntansi, Universitas Diponegoro  
(2) Program Studi Akuntansi, Universitas Diponegoro  
DOI : [10.20885/jaa.vol17.iss1.art6](#)

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# THE USE OF MANAGEMENT ACCOUNTING INFORMATION IN HOSPITAL MANAGEMENT

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## Abstract

The objective of the study is to find evidence concerning the use of management accounting information in hospital. Specifically, the aim of the research is to find out whether managers who are responsible to financial and accounting matters have adequate management accounting knowledge. The research surveyed hospitals in Central Java and Yogyakarta, both private and public hospitals. Respondents of the research are financial and accounting managers and decision maker managers. In-dept interviews and questionnaire are used to get the data. The result of the research shows that financial and accounting managers in hospitals have less adequate competency in their field so that they do not provide management accounting information to decision maker managers as managerial tools. Financial and accounting managers' role in hospital is only for preparing a budget and financial report. Instead of using interactive style, top managers use diagnostic style. In addition, this study finds that there is a significant effect between accounting and financial managers' competency and manager's control style.

**Keywords:** managers' knowledge, management accounting information, diagnostic control style, interactive control style.

## Abstrak

*Tujuan dari penelitian ini adalah untuk menemukan bukti mengenai penggunaan informasi akuntansi manajemen di rumah sakit. Secara khusus, tujuan penelitian ini adalah untuk mengetahui apakah manajer yang bertanggung jawab untuk masalah keuangan dan akuntansi memiliki pengetahuan akuntansi manajemen yang memadai. Rumah sakit yang disurvei di Jawa Tengah dan Yogyakarta, baik rumah sakit swasta maupun pemerintah. Responden penelitian ini adalah manajer keuangan dan akuntansi dan manajer pengambil keputusan. Wawancara mendalam dan kuesioner digunakan untuk mendapatkan data. Hasil penelitian menunjukkan bahwa manajer keuangan dan akuntansi di rumah sakit memiliki kompetensi kurang memadai di bidangnya sehingga mereka tidak memberikan informasi akuntansi manajemen untuk pembuat keputusan manajer sebagai alat manajerial. Peran manajer keuangan dan akuntansi di rumah sakit hanya untuk mempersiapkan anggaran dan laporan keuangan. Manajer tidak menggunakan gaya interaktif, tetapi gaya diagnostik. Selain itu, penelitian ini menemukan bahwa ada hubungan yang signifikan antara kompetensi manajer dan tipe pengendalian yang dilakukan manajer.*

**Kata kunci:** pengetahuan manajer, informasi akuntansi manajemen, gaya kontrol diagnostik, gaya kontrol interaktif.

## INTRODUCTION

In the recent global environment, high-quality product produced by a company becomes a critical issue. The raise of competition pushes companies to realize that only a high quality

product could generate a profit. In the service company, including a health care organization, the increased-competition pushes companies to realize about the importance of quality. Besides that, the information technology helps customers to evaluate the organization's per-



formance directly. Customers who are not satisfied with the organization's service can easily upload it in the internet and other social media. One of the global issues in health care organization is patient safety. However, other issues are actually also important. These include labor safety, facility-safety, environment-safety and organization business safety. All of these issues affect the objective of health-care organizations, which is patient safety. (Patient safety Guidance, Indonesian Ministry of Health 2006).

A hospital, as a health care organization, is a not-for-profit organization. The main objective of a hospital is to deliver health-care services by focusing on patient safety. To be able to deliver health care safely, there are a lot of factors that influence patient safety achievement. Unsterilized equipment and facilities would jeopardize patient safety. For this reason, equipment and facilities need to be maintained carefully and professionally. The environment around a hospital needs to be considered. Otherwise, not only patients, but also people around the hospital could be in a danger. Human resources who work in a hospital, either medical people or supporting people, need to feel secure in their work so that they can focus and concentrate to serve the patients. After all, the hospital organization business should be running well. A hospital should be financially healthy. An organization which is not financially good can make its personnel lose their motivation, and make them reluctant to achieve their optimum performance. An unhealthy organization cannot make any improvement.

For all the reasons above, a hospital as a not-for-profit organization needs to be managed professionally. To manage a hospital professionally, hospital's managers need to do a proper management process. Firstly, they need to determine their vision and mission, and then they need to state their objectives in the long run and short run. Planning, controlling and decision making should be done based on adequate information. There is a lot of information that must be considered by hospital's managers when they do a manage-

ment process, one of them is management accounting information. Management accounting information is an accounting information that is used by organization's managers to do a management process (i.e. planning, controlling and decision making). It is different from financial accounting information that is provided to be used by external parties of the organization.

A hospital is a complex organization. In a hospital, there are different kinds of business processes which are service business process, manufacturing business process and merchandising business process. As a complex organization, managers in a hospital even should be more professional than managers in other kind of business organization. Managers in a hospital are required to be professional. They need to know how to plan, organize, control and make a decision based on the proper information. Managers in a hospital should know well, what information that is relevant or irrelevant in the decision making situation. Realizing that a hospital organization must be managed professionally, Indonesian minister of Health allows flexibility in hospital financial management and it is stated in Law about State Treasury (Undang-undang No 1/2004 tentang Perbendaharaan Negara). This way is very common in a private hospital but it is not common in a public hospital. This law states that public hospital can be managed in corporation management way with the principles of productivity, efficiency and effectiveness. For this purpose, this law implies that hospital manager should be a medical doctor with managerial competency. A hospital manager should be able to use relevantly proper information as a source of management process. For this reason, hospital managers need to be supported by a competence information provider. One of the important information in an organization is managerial accounting information. Furthermore, the role of management accountant in a hospital organization is very crucial. Once they provide wrong information, then managers would make a wrong decision. The information provided by management accountant can lead

how managers to do a control process. Managers who are supported with relevant information provided by competence management accountants tend to use management accounting information in interactive way when they do managerial process in an organization (Naranjo and Hartmann 2006). According to Abernethy and Brownell, there are two kinds of managers' control style, they are diagnostic style and interactive style (Abernethy and Brownell 1999).

This study aims to identify whether management accountants in hospitals have a good competency due to their function as an information provider for decision maker. This study also identifies what control style that is used by hospital managers. Moreover, this study examines the relationship between management accountant competency and the managers' control style in a hospital.

## **LITERATURE REVIEW AND HYPOTHESES FORMULATION**

Davenport dan Prusak (1998) define knowledge as follows:

*"Knowledge is a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of knower's. In organizations, it often becomes embedded not only in document or repositories but also in organizational routines, processes, practices and norms"* (Davenport and Prusak 1998).

Knowledge is indicated by abilities and skills. Knowledge plays a significant role in individual behaviour and performance (Gibson and Donnelly 2005). While an Ability regards to individuals' capacity to do tasks in their work (Robin 2003), a skill reflects a competency related to tasks (Gibson and Donnelly 2005). People would have an ability and a skill when they have knowledge. (Stone, Hunton, and Weir 2000). Managers' knowledge influences how they make a decision, either tactical deci-

son or strategical decision. Managers' knowledge also influences them in choosing and using information, methods, ways and strategies needed by organizations to achieve their objectives.

Chase and Simon in their study state that quality of decision making would be eroded when there are no accordance between knowledge structure derived from managers' memory and the problem situation (Chase and Simon 1973). Some studies found that there is a merit when knowledge and experience are linked with performance (Bonner 1992; Spilker 1995). Nevertheless, in some cases, highly knowledge can erode decision making when there is no suitability between the level of knowledge and problem situation (Munoz 1998).

Management accounting or managerial accounting is the process of identifying, measuring, analyzing, interpreting and communicating information in pursuit of an organization's goals (Hilton and Platt 2011). Management accounting system (MAS) is a system designed uniquely for a company. This system provides information which are needed by managers to do planning, controlling, and decision making (Hansen and Mowen 2007). Management accounting system is an integral part of the management process, and management accountant is an important strategic partners in an organization's team. As a strategic management's partner, management accountant in an organization plays an important role. They design management accounting system and provide information to line managers or decision maker managers to enable them to do planning, controlling and decision making. The information provided by management accountants influences how line managers to do the planning, the controlling, and the decision making. If the provided information is wrong, line managers would make a mistake in their management process.

Management accounting system is a managerial tool which helps managers to do a management process. The objective of management accounting information system is providing information to managers in (1)

product, service and customer costing, (2) planning, evaluating, controlling and continuous improvement, (3) decision making (Hansen and Mowen 2007). Much information and many methods are provided by management accounting system in which managers can choose this information for helping them to do a management process. Appropriate information and methods that are chosen by managers affect their fruitfulness in planning, controlling and decision making. The suitable information and methods with organization's condition and situation that are used by managers depend on managers's knowledge about management accounting information system or depend on the comprehensive information that they got.

There are studies about the use of management accounting information system. Abernethy and Brownell (1999) focus on the use of it for budgeting only. Meanwhile, Naranjo and Hartmann have a broader view about the use of management accounting information. They address a managerial accounting information system as a set of managerial instruments, part of the organization's planning and control system, which are designed to provide top management with the information for their strategic decision making and strategic managerial control (Naranjo and Hartmann 2006).

Managerial control is the process by which managers influence other members of the organization to implement the organization's strategies. Management control systems are tools to aid management for steering an organization toward its strategic objectives and competitive advantage (Anthony and Govindarajan 2007). According to Horngren (2006), management control system is an integrated technique for collecting and using information to motivate employee behavior and to evaluate performance. There are two styles in management control, which are diagnostic style and interactive style (Abernethy and Brownell 1999; Naranjo and Hartmann 2006). In diagnostic style, managers focus management accounting information to monitor and control operational efficiency, while in inter-

active style, managers use management accounting information to stimulate dialogue and continuous learning (Burchell, Clubb, Hopwood, and Hughes 1980).

Manager's competency influences how they do a managerial control. Managers with adequate information in management accounting use management accounting information broadly in the managerial control. The differences in managerial orientation do not merely originate from functional responsibilities, but instead are rooted in the cognitions, values, and perceptions that are formed by education and experience (Carpenter et al. 2004). Both, the education and experiences shape manager's professionalism. Professional managers would use more management accounting information in their functions (Naranjo and Hartmann 2006).

The relationship between the level of manager professionalism and the manager's style in using management accounting system is examined by Naranjo and Hartmann. They classify managers into professional managers and administrative managers. They conclude that managers who have a more professional orientation use management accounting system more interactively. They also conclude that professional managers use both financial and non financial information to formulate a strategy (Naranjo and Hartmann 2006). From the above description, it may predict that manager's competency will affect manager's control style so that the hypothesis is formulated as follow:

Hypothesis 1: Manager's competency affect manager's control style.

## RESEARCH METHOD

Descriptive and verificative analysis were used in this study. Descriptive analysis was applied to encompass management accountant competency and managers' control style. Verificative analysis was applied to test the relationship between managers' competency and the managers' control style. The analysis unit in this study was a hospital. This study surveyed hospitals in Central Java and Yogyakarta Province, both private hospitals and

government hospitals. The stratified random sampling was applied to collect the data. There were two kinds of respondents in this research. The first one were managers who were responsible in accounting and finance in hospital and the second one was decision maker managers. The variables in this study were manager's competency as an independent variables and managers' control style as a dependent variable.

Accounting and Finance managers' competency was measured by four variables, ie (1) education background, (2) work experience,

(3) self actualization and (4) managers' basic knowledge. The managers' control style variable was measured by four indicators, they are : (1) the degree of negotiation in the objective setting; (2) Budget decentralization; (3) mission communication and ;(4) the use of non financial information. Likert's five-scale questionnaire was used to measure this variable. The larger score indicated that managers tend to use the interactive control style. The instrument was used after its validity and reliability were tested. The variable definition and measurement are showed in Table 1.

**Table 1:** Variable operationalization and measurement

Variable	Definition	Scoring	Score
Education background	The education background of accounting and finance managers	Master in accounting and finance	5
		Master in hospital management	4
		Undergraduate in accounting or bussiness	3
		Medical Doctor	2
		Others	1
Work experience	The lenght time of accounting and managers work in their field	More than 20 years	5
		16 - 20 years	4
		11 - 15 years	3
		5 – 10 years	2
		Less than 5 years	1
Self Actualization	The frequency of accounting and finance managers to improve their skill by join the seminar and workshop	Three times a year or more	5
		Twice a year	4
		Once a year	3
		Some time once a year	2
		Never	1
Basic Knowledge	Managers' basic knowledge about management accounting information system. A questionnaire about management accounting theory was used as a tool to measure this variable	85 – 100	5
		70 – 84	4
		55 – 69	3
		40 – 54	2
		Less than 40	1
The manager's control style	The style of managers in management control	Likert's Five scale was used to measure this variable. The indicator of this variable are: 1. The degree of negotiation in objective setting 2. Budget decentralization 3. The availability of media to communicate the organization mission 4. The use of non financial information	1 – 5

The product moment technique was applied to test the validity of the questionnaire. The questionnaire could be stated as valid as the “r” value of each items in the questionnaire were bigger than “r” product moment value. The questionnaire was stated as reliable as well, as its cronbach alpha value was 0.738. To test the relationship between the accounting manager competency and the manager control style, the multiple regression analysis was applied. The relationship between variables is expressed by the equation as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where

$\beta_0, \dots, \beta_4$  = coefficients to be estimated

$\epsilon$  = disturbance term

$X_1$  = Education background

$X_2$  = Work experience

$X_3$  = Self actualization

$X_4$  = Managers' basic knowledge about the management accounting information system

$Y$  = Manager's control style

## RESULTS AND DISCUSSION

The Research surveyed 67 hospitals, both public and private hospitals. The findings showed that control style used by hospital's manager was a diagnostic style. Four indicators were used to evaluate the manager's control style in

hospital: (1) the degree of negotiation in the objective setting; (2) Budget decentralization; (3) Mission delivery and ;(4) the use of non financial information. The mean score of each indicator in control style variable is showed in Table 2.

The total score of control style variable is 2.9811, meaning that managers in hospitals do not use management accounting information interactively in management control. The descriptive statistic about the manager control style is showed in Table 3.

The style of management control in a hospital is inline with accounting and finance manager's competency. The finding shows that the mean of the education background, work experience, self actualization and manager's basic knowledge are 2.3881, 3.1343, 2.4925 and 3.5522 respectively. The score of each variable is not more than 4. The findings show that managers do not have an adequate requirement in each variable. It describes that accounting and finance managers in hospitals do not have adequate competency in their field. The mean of each competency variables are showed in Table 4.

To test the hypotheses, the multiple regression analysis was used. The multiple regression analysis was done after the data had been tested for the classic assumption. To obtain the finding, The SPSS Software was used. Table 4 shows the finding of the regression model.

**Tabel 2:** The mean score of each indicator in control style variable

Indicator	Score
Total	2.98
The degree of negotiation in the objective setting	2.34
Budget decentralization	2.86
Mission delivery	3.34
The use of non financial information	3.38

**Table 3:** The Descriptive Statistics of Manager's Control Style

	N	Minimum	Maximum	Mean	Std. Deviation
Control	67	1.60	3.93	2.9811	.44839
Valid N (listwise)	67				



**Table 4:** Descriptive Statistics of Accounting and Finance Manager's Competency

	N	Minimum	Maximum	Mean	Std. Deviation
Education Background	67	1.00	4.00	2.3881	1.08649
Work Experience	67	1.00	5.00	3.1343	1.30146
Self Actualization	67	1.00	4.00	2.4925	.89397
Basic Knowledge	67	2.00	5.00	3.5522	.85783
Valid N (listwise)	67				

**Table 4:** Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.424	.216		6.602	.000
Education background	.097	.039	.234	2.465	.016
Work Experience	.073	.033	.211	2.204	.031
Self Actualization	.111	.051	.222	2.172	.034
Basic Knowledge	.231	.050	.442	4.601	.000

a. Dependent Variable: Manager's Control Style

From the result in the Table 4, the regression model can be expressed as follows,

$$Y = 1,424 + 0,097 X_1 + 0,073 X_2 + 0,111 X_3 + 0,231 X_4$$

The F test was applied to test the relationship between the manager's control style and accounting and finance manager's competency. With the significance level of 5% or  $\alpha = 0.05$ , number of samples = 67, number of variables (n) = 5 and degree of freedom (k) = 5, the F value is 13.829 and significance value is 0.000. The F value is less than F table (2.520)

and p value = 0.000. It means that education background, work experience, self actualization and basic knowledge influence manager's control style simultaneously. Tabel 5 shows the F test of the model.

T-test was applied to test the correlation between variables and manager's control style partially. The result of the test is showed in table 5. With significance level of 5% ( $\alpha = 0.05$ ), number of samples (n) = 67, number of variables (k) = 5 and the degree of freedom (n-k-1) = 62, it is found that t table is 1.999. The result of t test is showed in Table 6.

**Table 5:** F test of the model

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	6.257	4	1.564	13.829	.000 <sup>a</sup>
Residual	7.013	62	.113		
Total	13.269	66			

a. Predictors: (Constant), education background, work experience, self actualization dan basic knowledge

b. Dependent Variable: manager's control style

**Table 6:** The t test of the model

Variable	Coef. Reg	T <sub>value</sub>	Sig	Conclusion
Educational background	0,097	2,465	0,016	Significant
Work experience	0,073	2,204	0,031	Significant
Self Actualization	0,111	2,172	0,034	Significant
Basic Knowledge	0,231	4,601	0,000	Significant

**Table 7:** Correlation and Determination Coefficient of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.687 <sup>a</sup>	.472	.437	.33631
a. Predictors: (Constant), Educational Background, Work Experience, Self Actualization, Basic Knowledge				
b. Dependent Variable: Manager's Control Style				

**Table 8:** Partial Correlation and Determination

Variable	Partial correlation	Partial Determination (%)	t-value	p-value
Education Background with Manager's Control Style	0,299	8,9%	2,465	0,016
Work Experience with Manager's Control Style	0,270	7,3%	2,204	0,031
Self Actualization with Manager's Control Style	0,266	7,1%	2,172	0,034
Basic Knowledge with Manager's Control Style	0,504	25,4%	4,601	0,000

The finding shows that there is a partially correlation between education background, work experience, self actualization and basic Knowledge and Manager's Control Style. It can be said that, partially, education background, work experience, self actualization and basic knowledge contribute positively to the manager's control style. To measure how far the independent variables influence the dependent variable, the determination coefficient was used. The result of determination coefficient is showed in R square in Table 7. The R value of the model is 0.687, this finding shows that there is a strong correlation among education background, work experience, self actualization, basic knowledge and manager's control style. Furthermore The R square of the model is 0.472. It tells that the correlation between independent variables and managers control style can only be explained as much as 47.2 % and the rest, 52.8 % is explained by other factors. The partially correlation and determination coefficient are showed in Table 8.

The partial correlation between Education Background and Manager Control Style is 0.299 and the p value is 0.016. It means that there is a positive correlation between Education Background and Manager's Control Style, but the correlation is not strong. The partial correlation between Work Experience and Manager's Control Style is 0.270 and the p

value is 0.031. It shows that there is a positive correlation between Work Experience and Manager's Control Style, but the correlation is not strong. The partial correlation between Self Actualization and Manager's Control Style is 0.266 and the p value 0.034. It expresses that there is a positive correlation between Self Actualization and Manager's Control Style, but the correlation is not strong. The partial correlation between Basic Knowledge and Manager's Control Style is 0.504 and the p value is 0.000. The result proves that there is a strong correlation between Basic Knowledge and Manager's Control Style.

## DISCUSSION AND RECOMENDATION

Managers in an organization need an adequate information to be able to do a good management process. Accounting and finance managers have an important role to support information for the line managers. Accounting and finance managers are expected to support the right information related to what the line managers need for the management process. Once accounting and finance managers support the wrong information, the line managers would do a bad management process, and the decision could be wrong.

Although a hospital is a kind of organization whose objective is not intended to

make profits, the awareness to the financial matters needs to be considered. Inefficiency in hospitals could raise the cost of service. The overcosted service could be a burden for patients. As a result patients are reluctant to go to hospital when they are sick. This condition could obstruct a health welfare and also jeopardize a patient safety. To achieve the objective of patient safety, there must be a business safety in hospitals. To save the business, a hospital needs to be managed professionally. One of the important tasks of managers is a managerial control. Professional managers would use an interactive style to do a managerial control. They would be open minded to negotiate the organization's objective with their subordinates. They would also apply the participative budgeting. In addition, they would interactively communicate the mission of the organization to the whole organization's members and eventually, they would not rely solely on financial information. On the other hand, they would consider both financial information and non financial information to do a managerial control.

In order to be able to manage a hospital professionally, hospital managers need an adequate information including management accounting information. The management accounting information is provided by accounting and finance manager in a hospital. Accounting and finance manager in a hospital has a responsibility on finance and sometimes other information to support a hospital management team in its function. The Capability of accounting and finance managers influence how far the line managers in hospital could use these information in their daily tasks. The role of management accounting information would be more considerable if accounting and finance managers have more competence and capability.

The background of education has a significant role to support the competency of accounting and finance managers in hospitals.

In hospitals there are a few accounting and finance managers who have a master degree in accounting or finance. There are a lot of managers who come from a healthcare background education, such as a nurse or a doctor, especially in public hospitals. Although the main purpose of a hospital organization is to provide a health care service, it needs to have a competence accounting and finance manager to support its management team to do a hospital management process professionally. The work experience is another important variable in supporting the accounting and finance managers' competency in a hospital. The work experience of accounting and finance managers was found not too bad, but this finding is possibly resulted from the variance of the managers in private and public hospitals. In private hospitals, the managers' work experience is usually less than ten years, but they have an accounting education background. Most of them hold bachelor degrees. On the other hand, managers in public hospitals usually have a long work experience yet many of them do not have an accounting or finance education background. Furthermore both in private and public hospitals, accounting and finance managers do not have a significant role to influence the top managers decision with their information. Most of the accounting and finance managers in hospitals seldom join a workshop or shortcourse intensively to improve their capabilities in management accounting information usage. The basic knowledge of accounting and finance managers in hospitals is not sufficient. They, however, could not use this knowledge to produce information which could influence top manager's decision.

Managerial control is the process by which managers influence other members of the organization to implement the organization's strategies. Managers can do a managerial control in a diagnostic style and an interactive style. Managers would do an interactive

control style when they have good knowledge about management accounting information system and know how to use it. Good management accounting information knowledge is influenced by the quality of information that they get. The provider of management accounting information in an organization is a management accountant. Thus the role of management accountant in an organization as information provider is very important. The competency of accounting and finance managers influence how they provide the information to the line managers. Furthermore, their competency is influenced by their education background, work experience, self actualization and basic knowledge in management accounting information system (MAIS).

In hospitals, the accounting and finance managers do not have an adequate competency to encourage the line managers to do an interactive control style. There is an evidence that inadequate competency influences how the managers use a management accounting information system (MAIS) in managerial control. Although there is a correlation between accounting and finance managers' competency and managerial control style in hospital, the correlation is not too strong. Only 47% managerial control style is influenced by accounting and finance managers' competency. Meanwhile, the rest is influenced by other factors.

As an organization, a hospital has a unique characteristic. Even though a hospital can apply professional management practices, a lot of factors cause a hospital to face difficulties in adopting managerial process like in a profit oriented company. There are many factors that need to be considered for it is a non profit organization. Sometimes it is not a problem if a hospital's revenue doesn't meet their cost, because it often gets subsidization or fund from third parties. Political factor is one of factors that harm hospital management. The key persons in hospitals often are deter-

mined for political purpose, especially in public hospitals. This is the reason why hospitals difficult to be managed professionally. It is because the key person of hospitals sometime are less competence. Even though the hospital performance does not solely depend on its financial performance. Hospitals need to be managed efficiently, in order to maintain its sufficiency, so that it can cover its operational cost from its revenue, and if there is some funding from the third party, it can use the funding to improve the quality of service. Efficiency, accountability, transparency could prevent an organizational problem in hospitals. To be able to solve potential organization problems, hospitals need professional management team and need to be managed professionally. A competence management team in hospitals can help develop hospital performance in each aspect, financial and non financial.

## CONCLUSION

A hospital's main objective is not for profit, nevertheless it needs to be managed professionally. The competence of accounting and finance manager in a hospital can help the line managers to manage a hospital professionally. A professional management in a hospital can support cost efficiency and self sufficiency. In Addition, a professional management in a hospital would encourage a good organization culture and could encourage the goal congruence between the personnels' goals and the organization's goal.

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