

# Research Horizon

ISSN: 2808-0696 (p), 2807-9531 (e)

## Research Horizon

Volume: 06  
Issue: 01  
Year: 2026  
Page: 51-62

## Citation:

Summeh, F. S., Suharto, R. B., & Lestari, D. (2026). Interaction effects of human resource capacity and policy innovation on local tax collection effectiveness. *Research Horizon*, 6(1), 51-60.

## Article History:

Received: January 3, 2026  
Revised: January 31, 2026  
Accepted: February 23, 2026  
Online since: February 28, 2026

# Interaction Effects of Human Resource Capacity and Policy Innovation on Local Tax Collection Effectiveness

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## Abstract

The effectiveness of local tax collection has become a critical issue in regional fiscal sustainability, particularly amid increasing policy innovation and administrative transformation. This study aims to examine the influence of human resource capacity and policy innovation on the effectiveness of local tax collection in Bontang City and to analyze the interaction between these variables. A quantitative associative approach was employed using time series data from 2015–2024, including tax targets, realization data, and personnel records from the Regional Revenue Agency (Bapenda) of Bontang City. Data were analyzed using multiple linear regression with dummy variables and interaction terms through SPSS software. The findings reveal that human resource capacity does not significantly affect tax collection effectiveness, while policy innovation serves as the primary driver with a significant positive impact, indicating a structural shift in regional fiscal capacity. Moreover, a significant negative interaction effect was identified, suggesting that increasing personnel during innovation implementation reduces effectiveness due to transitional inefficiencies and administrative coordination burdens. The study concludes that regional tax administration has shifted from a labor-intensive toward a system-intensive model, emphasizing the need for automated data integration rather than workforce expansion.

## Keywords

Human Resource Capacity, Local Tax Effectiveness, Policy Innovation, Regional Fiscal Sustainability.

## 1. Introduction

Fiscal decentralization in Indonesia has fundamentally transformed local public financial management, particularly in the administration and optimization of own-source revenues through local taxation. The strengthening of fiscal autonomy under the Law on Central–Regional Fiscal Relations (*Undang-Undang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah/UU HKPD*) has granted local governments broader authority to design tax policies, manage collection systems, and enhance regional fiscal independence. However, this expanded authority has simultaneously increased pressure on local governments to improve tax collection effectiveness and administrative efficiency. Within the framework of fiscal decentralization, local government performance is determined not only by fiscal capacity but also by institutional capability in managing organizational resources and adapting to regulatory changes (Dexu & Wenlong, 2022; Yustianto et al., 2025). Consequently, local tax collection effectiveness has become a crucial indicator of both decentralization success and the administrative capacity of local public institutions.

Bontang City, an industrial and resource-based municipality, faces similar challenges in sustaining local tax revenues amid evolving national regulations and local economic dynamics. Over the period 2015–2024, tax revenue realization and effectiveness ratios in Bontang fluctuated due to institutional reforms, fiscal regulatory adjustments, and administrative transformation within local tax governance. The separation of the Regional Revenue Agency (*Badan Pendapatan Daerah/Bapenda*) from the broader regional financial management structure represented a significant organizational turning point that potentially reshaped tax administration performance. Empirical observations indicate that increases in nominal tax revenue were not consistently accompanied by improvements in effectiveness ratios, particularly when policy innovations were implemented alongside adjustments in human resource capacity. This phenomenon reflects coordination challenges and organizational adaptation pressures commonly associated with public sector reform transitions (Knox & Sharipova, 2023; Braams et al., 2024).

From a theoretical perspective, public administration literature emphasizes human resource capacity as a critical determinant of successful policy implementation. The number and competence of personnel are often assumed to strengthen monitoring mechanisms, improve taxpayer compliance, and reduce revenue leakage (Paroli, 2023; Olumoh & Mubaraq, 2025). In tax administration studies, organizational capacity has long been associated with improved institutional performance and public service effectiveness (Idrus, 2024; Vintilă et al., 2025). Nevertheless, contemporary public sector reforms and digital transformation indicate a paradigm shift toward system-based administration, where technology adoption, data integration, and regulatory innovation play increasingly decisive roles in organizational performance (Lee et al., 2023; Satria et al., 2025). Under such conditions, expanding personnel numbers does not necessarily enhance effectiveness and may instead generate transitional inefficiencies, administrative burdens, and coordination complexity.

A research gap emerges because prior studies predominantly examine human resource capacity and policy innovation as independent determinants, while empirical investigations of their interaction effects remain limited, particularly at the local government level in developing countries. Moreover, existing research on local tax effectiveness largely concentrates on taxpayer compliance or aggregate fiscal performance, leaving insufficient attention to structural changes in the tax administration production function from labor-intensive toward system-intensive models. The novelty of this study lies in simultaneously examining the effects of human resource capacity and policy innovation, including their interaction, in

explaining local tax collection effectiveness within the context of fiscal decentralization and administrative reform.

Against this background, this study seeks to analyze how human resource capacity and policy innovation influence local tax collection effectiveness in Bontang City and how the interaction between these variables shapes regional tax performance. By addressing these issues, this research contributes empirical evidence to the literature on local public finance and public sector reform while providing insights into the ongoing transformation of tax administration from a labor-intensive toward a system-intensive governance model in the era of bureaucratic reform and digital government.

## **2. Literature Review and Hypothesis Development**

### **2.1. The Effect of Human Resource Capacity on Tax Effectiveness**

Human resource capacity is widely recognized as a central component in policy implementation frameworks, which emphasize that adequate personnel measured in terms of quantity, competence, and motivation are essential for achieving policy objectives effectively. In the context of tax administration, the availability of trained staff capable of conducting assessments, collection, monitoring, and enforcement activities is generally associated with improved compliance and revenue performance. Previous studies by Adekunle (2022) and Claasen (2022) highlight that administrative capacity significantly influences tax outcomes, as professional and well-trained tax officials enhance monitoring quality and reduce opportunities for revenue leakage. Similarly, Friday et al. (2022) and Braccioli et al. (2024) argue that state capacity, including human resource capability, plays a crucial role in strengthening fiscal extraction and institutional effectiveness. Local governments supported by sufficient and competent personnel are therefore expected to achieve higher tax effectiveness ratios, commonly defined as the proportion of realized revenue relative to predetermined targets.

However, empirical evidence also suggests that the marginal contribution of additional personnel may decline when organizational systems remain inefficient or rely heavily on manual administrative processes. Increasing staff numbers without institutional modernization can generate overlapping responsibilities, coordination problems, and rising administrative costs rather than improved performance outcomes. Nastase et al. (2025) demonstrate that digital-era governance shifts organizational performance drivers from labor expansion toward technology-enabled systems and integrated information management. Likewise, Gorshkova et al.'s (2022) findings indicate that modern tax administrations increasingly depend on automation and data integration rather than workforce size alone. These insights imply that the relationship between human resource capacity and tax effectiveness is conditional upon broader institutional arrangements, technological adoption, and organizational design, suggesting that personnel expansion alone may not guarantee higher tax collection effectiveness.

H1: Human resource capacity has a positive and significant effect on local tax collection effectiveness.

### **2.2. The Effect of Policy Innovation on Tax Effectiveness**

Policy innovation in the public sector refers to the introduction of new regulatory instruments, organizational restructuring, and the adoption of processes or technologies that fundamentally transform how public services are delivered. Within local tax administration, policy innovation may involve institutional reforms, the implementation of electronic tax systems, and the enactment of new tax regulations designed to broaden the tax base and simplify compliance procedures. Such

innovations are often intended to enhance administrative efficiency, strengthen accountability, and improve revenue performance. Previous studies by Lestari (2023) and Jmahri and El Filali (2025) emphasize that regulatory and institutional reforms can significantly improve tax administration outcomes by reducing ambiguity in authority and enhancing organizational specialization. Similarly, Lopes and Farias (2022) argue that innovation in public governance enables institutions to respond more effectively to complex policy environments by redesigning operational processes and decision-making structures.

At the local government level, various policy innovations have been introduced, including the institutional separation of revenue agencies from broader financial management structures and the enactment of regional tax regulations aligned with the Law on Central–Regional Fiscal Relations. These reforms are designed to strengthen organizational focus on revenue mobilization, minimize overlapping mandates, and provide a clearer legal and administrative framework for tax collection. Empirical evidence indicates that institutional restructuring and digital transformation can generate structural improvements in revenue performance by enhancing monitoring capacity and taxpayer compliance over time (Agyei-Ababio et al., 2023; Rashid et al., 2024). When implemented effectively, such policy innovations not only improve operational efficiency but also contribute to sustained increases in tax effectiveness by aligning administrative systems with evolving fiscal governance demands.

H2: Policy innovation has a positive and significant effect on local tax collection effectiveness.

### **2.3. Interaction Between Human Resource Capacity and Policy**

The interaction between human resource capacity and policy innovation represents an important dimension in explaining changes in local tax administration performance. Traditionally, human resources are viewed as a primary driver of effective policy implementation, as adequate staffing supports assessment, monitoring, enforcement, and administrative coordination. Increased personnel may complement policy innovation by providing the operational capacity required to implement new regulations and manage organizational transitions. Policy implementation studies emphasize that administrative capacity plays a crucial role in translating reform initiatives into practical outcomes, particularly during periods of institutional change (Sager & Gofen, 2022; Nakrošis et al., 2023). In this perspective, human resource capacity functions as an enabling factor that supports the successful execution of innovative policies within public sector organizations.

However, contemporary governance reforms suggest that certain forms of policy innovation especially digitalization, automation, and process simplification can reduce dependence on large administrative workforces. Digital-era governance highlights how integrated information systems increasingly replace manual administrative processes, thereby reshaping organizational efficiency and labor requirements (Wijaya & Nasution, 2025; Wasesa et al., 2025). Evidence from modern tax administrations further indicates that technology adoption and data integration improve performance while lowering administrative workload (Deshi et al., 2025). In the context of Bontang City, policy innovation is assumed to shift tax administration from a labor-intensive toward a system-intensive model, reducing the marginal benefit of additional staff. Consequently, the interaction between human resource capacity and policy innovation is expected to be negative, reflecting a “rightsizing” effect in which innovation partially substitutes for labor inputs in improving tax effectiveness.

H3: The interaction between human resource capacity and policy innovation has a significant negative effect on local tax collection effectiveness.

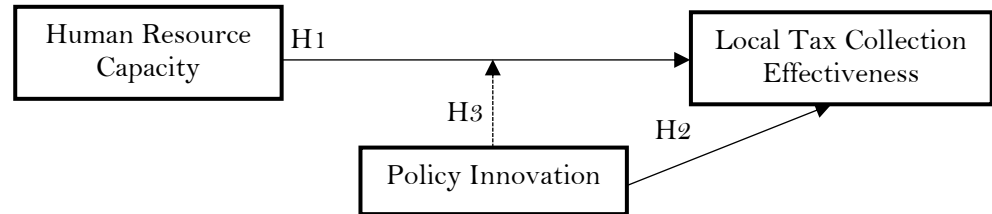


Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual research model depicting the relationships among human resource capacity, policy innovation, and local tax collection effectiveness. In this model, human resource capacity has a direct effect on local tax collection effectiveness (H1), indicating that the capacity of human resources is expected to enhance the effectiveness of local tax collection. In addition, policy innovation also exerts a direct influence on local tax collection effectiveness (H2), emphasizing the role of policy innovation in improving tax administration performance. Furthermore, an interaction effect (H3) exists between human resource capacity and policy innovation in influencing local tax collection effectiveness, suggesting that the impact of human resource capacity may vary depending on the level of policy innovation implemented.

### 3. Methods

This study employs a quantitative research design with an associative approach to examine the relationships between human resource capacity, policy innovation, their interaction effect, and local tax collection effectiveness. The associative approach is applied to analyze causal relationships among variables through statistical testing. The analysis utilizes annual time-series data covering the period 2015–2024, obtained from the Regional Revenue Agency (*Badan Pendapatan Daerah/Bapenda*) of Bontang City and other relevant official local government documents.

The dependent variable in this study is local tax collection effectiveness, measured as the ratio of realized local tax revenue to the annual revenue target established by the local government, expressed as a percentage. This measurement reflects the extent to which fiscal targets are achieved within each observation period. The independent variables consist of human resource capacity, which is measured based on the number and composition of personnel assigned to tax collection functions within Bapenda Bontang. This variable represents the administrative and operational capacity supporting tax collection performance. In addition, policy innovation is operationalized as a dummy variable representing major institutional and regulatory reforms in local tax administration, including the institutional separation and strengthening of Bapenda as well as the implementation of new regional tax regulations aligned with national fiscal reforms. Years in which significant policy innovations occurred are coded as 1, while other years are coded as 0.

This study also incorporates an interaction term, calculated as the product of human resource capacity and the policy innovation dummy variable. This interaction term is intended to capture the combined or moderating effect of staffing capacity and policy reform on local tax collection effectiveness. Data were collected from annual reports, staffing records, data on local tax targets and realizations, regional regulations, financial statements, and official statistical publications related to

Bontang's fiscal performance to ensure the reliability and validity of the empirical analysis. Data analysis is conducted using moderated regression analysis. with the model specified.

$$Y = \alpha + \beta_1 X_1 + \beta_2 D + \beta_3 (X_1 \cdot D) + \varepsilon$$

Information:

Y = Local Tax Collection Effectiveness

$\alpha$  = Constant

$\beta_1$ - $\beta_3$  = coefficient regression

X1 = Human Resource Capability

D = Policy Innovation

X1.D = Interaction between Human Resource Capability and Policy Innovation

E = error terms

Estimate the effect of each variable. Prior to model estimation, classical assumption tests are performed, including tests of normality, multicollinearity, autocorrelation, and heteroscedasticity. Model adequacy is evaluated using the F-test and the coefficient of determination ( $R^2$ ), while partial hypothesis testing is conducted using t-tests on each regression coefficient to determine the statistical significance of the independent variables.

#### 4. Results

The descriptive analysis of Bontang's local tax collection over 2015–2024 shows fluctuations in both nominal revenue and effectiveness ratios. Periods of organizational change and regulatory reform are associated with visible shifts in the trend of tax performance. The composition of staff in Bapenda also changed over time, reflecting adjustments in organizational structure and the distribution of tasks.

**Table 1.** Normality Test Result

Test	Value
Test Statistic	0.068
Asymp. Sig. (2-tailed)	0.200

Based on Table 1, the normality test results show that the data are normally distributed. The Kolmogorov–Smirnov test produced an Asymp. Sig. (2-tailed) value of 0.200, which is greater than 0.05. This indicates that there is no significant deviation from normality. Therefore, the normality assumption for regression analysis has been fulfilled.

**Table 2.** Multicollinearity Test Result

Variable	Tolerance	VIF
Human Resource Capacity	0.772	1.295
Policy Innovation	0.755	1.324

Table 2 presents the results of the multicollinearity test for the independent variables in the regression model. The tolerance value for Human resource capacity is 0.772 and for policy innovation is 0.755, both exceeding the minimum threshold of 0.10. Meanwhile, the VIF value for human resource capacity is 1.295 and for policy innovation is 1.324, both well below the critical limit of 10. These findings indicate that there is no multicollinearity problem among the independent variables, meaning each variable contributes distinctly to explaining the dependent variable and the regression model satisfies the multicollinearity assumption.

Based on Table 3, the heteroskedasticity test results indicate that the regression model does not suffer from heteroskedasticity. The significance value for human

resource capacity is 0.278 and for policy innovation is 0.315, both exceeding the 0.05 significance level. This indicates that the residual variances are constant across observations. Therefore, the assumption of homoscedasticity has been satisfied. Furthermore, the Durbin-Watson value of 1.923 falls within the acceptable range of 1.5 to 2.5, indicating that there is no autocorrelation problem in the regression model.

**Table 3.** Heteroskedasticity and Autocorrelation Test

Variable	Significance (Sig.)	Durbin-Watson
Human Resource Capacity	0.278	1.923
Policy Innovation	0.315	

Based on Table 4, the coefficient of determination ( $R^2$ ) is 0.412, indicating that 41.2% of the variance in the dependent variable can be explained by human resource capacity, policy innovation, and their interaction term. The Adjusted  $R^2$  value of 0.398 shows a slight decrease after adjusting for the number of predictors, suggesting that the model remains relatively stable and has good explanatory power. These results suggest that the model is statistically adequate and reliable.

**Table 4.** R-Square

Test	Value
$R^2$	0.412
Adjusted $R^2$	0.398

Based on Table 5, the hypothesis testing results show varying effects among the independent variables. Human resource capacity has a regression coefficient of  $-0.082$  with a significance of 0.137, indicating that it does not have a statistically significant effect on the dependent variable. In contrast, policy innovation has a positive and significant effect, with a coefficient of 0.421 and a significance of 0.000, suggesting that higher levels of policy innovation are associated with an increase in the dependent variable.

**Table 5.** Hypothesis Testing

Variable	B	t-statistics	Sig.	Conclusion
Constant	2.135	4.385	0.000	
Human Resource Capacity	-0.082	-1.491	0.137	Not significant
Policy Innovation	0.421	5.397	0.000	Significant
Human Resource Capacity x Policy Innovation	-0.127	-2.396	0.000	Significant

Furthermore, the interaction term between human resource capacity and policy innovation has a negative coefficient of  $-0.127$  and is statistically significant ( $p = 0.000$ ). This result indicates that human resource capacity and policy innovation, when considered together, have a significant joint effect on tax performance. The negative coefficient suggests that the combined influence of human resource capability and policy innovation is associated with a decrease in tax performance, meaning that their simultaneous interaction contributes significantly to the variation in the tax variable.

**Table 6.** F-Test

Test	Result
F-statistics	12.873
Sig.	0.000

Based on Table 6, the F-test results indicate that the regression model is statistically significant. The model has an F-statistics of 12.873 with a significance

level of 0.000, which is lower than 0.05. This means that the independent variables human resource capacity, policy innovation, and their interaction term jointly have a significant effect on the dependent variable.

## 5. Discussion

The absence of a significant independent effect of human resource capacity on local tax effectiveness challenges the conventional assumption that increasing the number of personnel automatically leads to improved public sector performance. Traditional public administration theories often emphasize staffing levels as a key determinant of organizational success. However, the findings from Bontang City indicate that additional personnel alone do not necessarily resolve structural bottlenecks in tax administration. Without adequate organizational restructuring, clear task allocation, and technological support, expanding the workforce may simply reproduce existing inefficiencies. This result supports the argument that administrative capacity is multidimensional and cannot be measured solely by staff quantity (Hawkins et al., 2023; Nordin et al., 2024). Research by Serikova et al. (2022) shows that improvements in tax performance are more strongly influenced by institutional quality and management systems than by workforce expansion.

The significant and positive effect of policy innovation demonstrates that institutional and regulatory reforms function as critical drivers of improved local tax collection. The organizational separation of the Bapenda from broader financial management institutions allows greater specialization and strategic focus on revenue mobilization activities. Additionally, regulatory adjustments aligned with national fiscal reforms provide clearer mandates, broader tax bases, and simplified administrative procedures. These reforms reduce institutional ambiguity, strengthen accountability mechanisms, and create opportunities for process optimization. Previous studies indicate that governance innovation and organizational restructuring enhance public sector performance by improving coordination and decision-making efficiency (Pollitt & Bouckaert, 2017). Similarly, Baba and Candra's (2025) findings show that modern tax administrations achieve higher effectiveness through regulatory clarity and digital transformation rather than administrative expansion.

The negative and significant interaction between human resource capacity and policy innovation represents a particularly important finding. It suggests that when policy innovation emphasizes system-intensive approaches such as digitalization, data integration, and process simplification the marginal contribution of additional staff declines and may even become counterproductive. During transitional reform periods, organizations face increased training demands, role redefinition, and workflow realignment. When staffing levels remain high, but competencies are not fully adapted to new systems, coordination costs and administrative burdens may temporarily reduce effectiveness. This pattern aligns with digital-era governance theory, which argues that technological integration reshapes organizational structures and reduces dependence on manual administrative labor (Yulianto & Ardini, 2025). Research by Sidik et al. (2024) shows that automation and integrated information systems can substitute for labor inputs while improving monitoring and operational efficiency (Sidik et al., 2024).

Thus, the findings indicate a broader transition from labor-intensive toward system-intensive tax administration, where institutional design and technological capability become more decisive than workforce size. In such contexts, staff adaptability and competence matter more than numerical expansion, and strategic rightsizing may enhance organizational performance. Practically, local governments should avoid relying solely on staff expansion as a strategy to improve tax effectiveness and instead prioritize institutional reform and technological integration. Policy innovation should be accompanied by structured transition

management, including staff retraining and role realignment. Furthermore, staffing policies need to align with a long-term vision of system-driven tax administration that emphasizes efficiency, data integration, and organizational adaptability as foundations of sustainable local fiscal performance.

## **6. Conclusion**

This study analyzed the influence of human resource capacity and policy innovation, as well as their interaction, on local tax collection effectiveness at the Regional Revenue Agency of Bontang City. The evidence shows that human resource capacity alone does not significantly affect tax effectiveness, while policy innovation has a positive and significant impact. The interaction between human resource capacity and policy innovation is negative and significant, suggesting that in an innovation-driven context, excessive staff numbers may reduce effectiveness due to transitional and coordination inefficiencies. These findings support the conclusion that the local tax administration model in Bontang is moving from a labor-intensive to a system-intensive paradigm. Effective tax collection thus depends less on the sheer size of the workforce and more on appropriate institutional reforms, regulatory clarity, and the use of integrated systems. For policymakers, this underscores the importance of prioritizing digitalization, data integration, and organizational restructuring over continued expansion of administrative staff.

This study is limited by the relatively short time-series period of 2015–2024 and the use of data from a single local government institution, which may restrict the generalizability of the findings to other regions. In addition, the model incorporates only human resource capacity and policy innovation, thereby excluding other potential determinants such as technological infrastructure, taxpayer characteristics, and broader macro-fiscal conditions that may also influence local tax collection effectiveness. Future research could extend this analysis by incorporating additional explanatory variables, such as macroeconomic conditions, taxpayer characteristics, and indicators of technological adoption, as well as by comparing multiple regions to assess the generalizability of the observed patterns. Longer time series and broader cross-sectional data would further strengthen the understanding of how HR capacity and policy innovation jointly shape the effectiveness of local tax administrations in Indonesia.

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### ***Acknowledgment***

We gratefully acknowledge the contributions of individuals who supported the completion of this article.

### ***Funding Information***

This research did not receive any funding.

### ***Conflict of Interest Statement***

The authors declare that there is no conflict of interest.

### ***Ethical Approval and Originality Statement***

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

### ***Data Disclosure Statement***

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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