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Determinants Of Financial Performance In Local Governments In District/City In Indonesia

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ABSTRACT

This study aims to determine and analyze the effect of government size, balancing funds, and economic growth on regional financial performance in districts/cities in Indonesia. This type of research is causal and the object of this research is all districts and cities in Indonesia. The data used is secondary data obtained from the Directorate General of Fiscal Balance and the Central Statistics Agency for the period 2014-2018 with a total sample of 2,056 research data. Using a quantitative approach and data analysis using a simple regression analysis model. The results showed that Government Size had a positive effect, Balanced Funds had a negative effect, and Economic Growth had a negative effect on Regional Financial Performance.

1. Introduction

The implementation of Indonesia's regional autonomy to date is a manifestation of the implementation of decentralization. The implementation of decentralization is expected to accelerate the realization of community welfare through service improvement, empowerment and community roles. In addition, regions are expected to be able to increase competitiveness by taking into account the principles of democracy, equity, justice, privileges, as well as regional potential and diversity. Sujarweni (2015), argues that regional autonomy is a region's freedom to make regional regulations, formulate and implement policies, and manage their regional finances independently. With the provision of regional autonomy that prioritizes regional independence, it can create efficiency and effectiveness in financial resources. Therefore,

Implementation of Law No. 9 of 2015 concerning local government in the reform period. The implementation of regional autonomy is one form of decentralization carried out to create good government performance by prioritizing accountability and openness. The financial performance of local governments according to Mahsun (2013) is the level of achievement of the results of financial performance in local governments, which consists of the budget and its realization in realizing the goals, objectives, vision, and mission of the local government.

One of the instruments that can show the financial performance of local governments is the revenue and expenditure budget (APBD). Therefore, local governments must make real and structured efforts to produce APBD that is able to reflect the needs of the community in accordance with the potential of each region.Regional budgets are used as a tool to determine the amount of income, expenses and financing, a tool for decision making and development planning, a tool for future expenditure authority, a standard measure for performance evaluation and a coordination tool for all activities in various work units. Performance related to the budget is a regional financial performance in the form of a comparison between the components contained in the budget.

Financial performance is the level of achievement of the results of the financial performance of a regional government which includes the budget and the realization of the APBD using financial indicators that have been determined by a policy and legislation for one budget period. In its implementation, financial performance measurement requires a reference or standard so that the regional government can be categorized as an independent, effective, efficient and accountable region.

One of the instruments that can show the financial performance of local governments is the regional revenue and expenditure budget (APBD) which consists of Regional Original Revenue (PAD), balancing funds and other legitimate revenues and regional expenditures. Therefore,

Good or bad regional financial management will affect the progress of a region. The principles of regional financial management that are carried out in an orderly, law-abiding, efficient, economical, effective, transparent, accountable and responsible manner by paying attention to the principles of justice, propriety and benefits for the community can realize the achievement of regional economic growth.

Financial performance is a measurement of an organization's financial management related to accountability. According to the Regulation of the Minister of Home Affairs Number 59 of 2007 concerning Guidelines for Regional Financial Management which states that performance is the output or result of an activity that will or has been carried out in accordance with the use of a budget whose quality and quantity have been measured. The measurement of financial performance in this study uses the ratio of regional financial independence on the grounds that performance measurement is a form of accountability, higher assessment becomes a demand and performance measurement data can be an improvement for the next program which in principle the financial performance of the regional government is the ability of the regional government to carry out autonomy. regions by using financial ratio analysis on the realization of APBD management.

Government size is a scale used to calculate value and will directly show the size of an object with a certain capacity, one of which is measurement in the economic field, this will put greater pressure on local governments if they have large assets. Local governments that have a larger size will have greater pressure compared to local governments that have a smaller size.

Law Number 18 of 2016 concerning the state revenue and expenditure budget explains that the Balancing Fund is a fund allocated in the APBN to regions to fund regional needs in the context of implementing decentralization, which consists of General Transfer Funds and Special Transfer Funds.

Economic growth reviews the movement of economic conditions in a period. Sustainability of economic development and improvement of community welfare requires high and sustainable economic growth. Economic growth is strongly influenced by several very dynamic aspects, including technological assumptions, the number of the workforce, capital reserves, population growth and the number of unemployed (Supriana, 2013).

2. Research Methods

This research can be regarded as causal research, which is to see a causal relationship between one variable and another (Daulay, 2010).

2.1 Variable Operational Definition

Research variables are basically everything in any form determined by the researcher to be studied so that information is obtained about it, then conclusions are drawn (Sugiyono, 2014).

The dependent variable in this study is economic growth. The independent variable used is Economic Growth, Government Size, and Balance Funds, and Fiscal Stress as moderating variables.

1) Regional Financial Performance (Y)
   Regional Financial Performance isa measurement of an organization's financial management related to accountability. The measurement of financial performance in this study uses the ratio of regional financial independence on the grounds that performance measurement is a form of accountability, higher assessment becomes a demand and performance measurement data can be an improvement for the next program which in principle the financial performance of the regional government is the ability of the regional government to carry out autonomy. regions by using financial ratio analysis on the realization of APBD management.
2) Government Size (X1)
   Government size is a scale used to calculate value and will directly show the size of an object with a certain capacity, one of which is measurement in the economic field.
3) Balancing fund (X2)

Balancing Funds are funds sourced from APBN revenues allocated to regions to fund regional needs in the context of implementing decentralization in the form of DBH, DAU, and DAK. The indicator used is the accumulated realization of DBH, DAU, and DAK ($\Delta DP=\Delta DBH+\Delta DAU+\Delta DAK$) in the 2014–2018 APBD, with a ratio measurement scale.

4) Economic growth (X3)
Economic growth (Y) is the process of increasing output proxied by Gross Regional Domestic Product (GRDP). On this basis, the researcher uses GRDP per Regency/City on the island of Sumatra, which is measured at constant prices to assess economic growth, expressed in rupiah (Rp) using a ratio scale.

2.2 Population, Sample and Sampling Technique

The population in this study is all district and city governments in Indonesia which consists of 514 districts/cities with an observation period of 5 years (2014-2018) so that the total research data is 514 districts/cities x 5 years = 2,056 research data. The sampling technique used in this study was saturated/census sampling.

2.3 Data analysis technique

Classic Assumption Test, The data analysis method used in this study was a simple regression analysis model. The use of the regression analysis method in testing the hypothesis, first tested whether the model meets the assumptionsclassic or not. Classical assumption test consists of normality test, heteroscedasticity test, multicollinearity test and autocorrelation test.

Panel Data Regression Analysis Regression analysis is an analysis to measure the influence between the independent variable and the dependent variable. The regression equation for the static model and the dynamic model is:

$$\mathbf{Y = a + b1X1 + b2X2 + b3X3 + e}$$

Information :
Y :Regional Financial Performance
B1-5 :Regression Coefficient
X1 :Government Size
X2 :Balancing Fund
X3 :Economic growth
e : error

2.4 Estimation Model Selection

There are three models used in panel data analysis, namely Ordinary Least Square (OLS), Fixed Effect Model (FEM) and Random Effect Model (REM).

2.5 Hypothesis test

The coefficient of determination (R2) aims to measure how far the model's ability to explain the variation of the dependent variable. The value of the coefficient of determination is between zero and one. R Nilai value2 which is small means the ability of the independent variables in explaining the variation of the dependent variable is very limited. Values close to one mean independent variables

The F test is used to determine whether there is a simultaneous effect of the independent variables on the dependent variable. The test criteria used are if the probability value (p value) < 0.05, then Ha is accepted and if the value is > 0.05, then Ha is rejected.

The t-test was used to determine the effect of each independent variable on the dependent variable. The test criteria used are if p value < 0.05, then Ha is accepted and if p value > 0.05, then Ha is rejected.

3. Research Result

Based on the F statistical test in the table in Appendix 3, it can be seen that the F test results show a significant value of 0.031469 0.05. The results of this F test indicate that the independent variables simultaneously (simultaneously) have a significant effect on the dependent variable, namely economic growth, government size, balancing funds, population simultaneously, significantly influencing regional financial performance variables.<

Panel Data Regression Equation and Partial Effect Significance Test (t Test):

T Test Results (Partial)

Variable	Coefficient	Std. Error	t-Statistics	Prob.
X1	0.163638	0.062791	2.606073	0.0092
X2	-0.000358	0.002938	-0.121700	0.9031
X3	-0.006511	0.026825	-0.242728	0.8082
C	-3.800731	1.533308	-2.478779	0.0132

Based on Table, it is known that the variables of government size and population have a significant effect on the regional financial performance of district and city governments in Indonesia. Meanwhile, economic growth and balancing funds have no significant effect on the regional financial performance of district and city governments in Indonesia.

The Effect of Government Size on Financial Performance

The results of testing the influence of government size on financial performance with the t-test show that the coefficient value of the government size variable is positive, meaning that every additional government measure will increase the next year's financial performance assuming other variables are constant. This value can be interpreted as the variable of government size that has a positive effect on the financial performance variable. It is known that the government size variable has a significant (statistical) effect on the financial performance variable.

The positive effect shows the meaning that the size of the government is in line with financial performance, where the decreasing size of the government will increase financial performance.The results of this study indicate that the size of the local government is measured based on the total assets owned by the local government. If the size of the local government is getting bigger then the financial performance of the local government is not good. Local governments with large sizes should have great pressure to provide good services to the community and disclosure of their performance reports, this is the possibility that local governments have not been able to manage their assets properly to provide services to the community.

The results of this study are in line with the research of Sari, (2016), Maiyora, Research conducted by Mulyani and Wibowo (2017) shows that the size of the local government affects financial performance (districts/cities in Central Java Province, 2012-2015). So the hypothesis is accepted.

The Effect of Balancing Funds on Financial Performance

The results of testing the effect of the balancing fund variable on financial performance with the t-test show that the coefficient value of the independent variable balancing funds is negative, meaning that any additional balancing funds will increase the next year's financial performance assuming other variables are constant. This value can be interpreted as the balancing fund variable has a negative effect on the financial performance variable.

This research is in line with the results of research conducted by Budianto (2016) which states that balancing funds have a negative effect on regional financial performance.The balancing fund is one of the sources of revenue for a region that contributes greatly to the APBD. The purpose of the balancing fund is toreduce the fiscal gap that occurs at both the central and regional levels. Balancing funds are transfer funds from the central government to local governments with the aim of financing the excess of regional spending. The Balancing Fund received from the central government is used to address the issue of horizontal fiscal inequality. The ability of regions to collect revenues varies greatly, this depends on the conditions of the region concerned whether the region has natural resources or not, regions with high or low intensity of economic activity, and the obligation for regional governments to maintain the achievement of minimum service standards in each region. Regions with few resources require subsidies in order to achieve the minimum service standards. Therefore, balancing funds received from the central government will show that local governments are increasingly dependent on the central government to meet their regional needs. So that will make the financial performance of local governments decline.

This is different from the research results of Andirfa, et al (2016) and Budianto and Alexander (2016) which prove that balancing funds have a negative effect on local government financial performance. The results of this study indicate that if the realization of regional expenditures is higher than regional revenues, there will be a budget deficit so that to cover the shortage of regional expenditures, a transfer of balancing funds from the central government is needed. The magnitude of the transfer of balancing funds indicates a declining financial performance of local governments.

The Effect of Economic Growth on Financial Performance

The results of testing the effect of economic growth on financial performance with the t-test show that the coefficient value of the independent variable of economic growth is negative, meaning that any increase in the value of economic growth will reduce financial performance in the following year assuming other variables are constant. This value can be interpreted as economic growth variables have a negative effect on financial performance variables.

Economic growth measures or explains a success of the development of an economy. The actual economic activity of the fiscal economic development that occurs in a country is reflected in economic growth. Economic growth is an economic activity that causes goods and services produced to increase. If the economic growth of a region is high, the financial performance of the region will decline, due to factors that affect economic growth, one of which is fiscal policy (https://www.kemenkeu.go.id/).

It can be seen that the results of this study are in line with the results of research conducted by Cloudiah (2016) and Muda (2018) which show that economic growth has a negative effect on financial performance. So that the hypothesis is accepted.

4. Conclusion

Based on the hypothesis testing and analysis described in the previous chapter, conclusions can be drawn, namely. Government Size has a positive effect on Financial Performance. Balancing Fund has a negative effect on Financial Performance. Economic Growth has a negative effect on Financial Performance

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