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FACTORS THAT INFLUENCE THE FINANCIAL PERFORMANCE OF THE WEST SULAWESI PROVINCE GOVERNMENT 2010-2019

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Abstract:-

This study aims to analyze whether economic growth, total regional assets, and leverage affect the financial performance of West Sulawesi Province in 2010-2020. The data used were analyzed quantitatively. This study used an analytical observational approach with a time series design, the research data was in the form of numbers and analysis using statistics with a hypothesis testing study research design to test the effect between variables. The study used Multiple Linear Regression and Moderated Regression Analysis using the SPSS program. The results showed that: Economic Growth and Total Regional Assets of West Sulawesi Province, had an influence on the Regional Financial Performance of West Sulawesi Province in 2009-2019. While the Leverage variable has a negative but not significant relationship to the Regional Financial Performance of West Sulawesi Province (Y) in 20010-2019.

Keywords: Economic Growth, Total Regional Assets, Leverage, and Regional Financial Performance.

Introduction:-

Regional Autonomy which is based on Law Number 22 of 1999 concerning Regional Government which has been replaced by Law Number 32 of 2004 concerning Regional Government and then changed again to Law Number 23 of 2014 concerning Regional Government, as well as Law Number 33 2004 concerning Financial Balance between the Central and Regional Governments, has transferred development authority from the central government to regional governments and has provided broad opportunities for local governments to take care of their households.

Analysis of local government financial performance aims to measure and evaluate the performance of local governments, measure the potential of the regions and how much effort local governments make to obtain economic resources, to determine the financial condition of the regions, to know the ability of the government to fulfill its obligations, and to believe that local governments have implemented regional budgets in accordance with applicable laws and regulations. One of the analytical tools to measure financial performance is to use financial ratios. There are several types of financial ratio analysis for measuring local government financial performance that have been developed based on financial data and information sourced from Regional Government Financial Reports (LKPD), namely, regional financial independence ratios, regional financial effectiveness ratios, and regional financial growth ratios.

Knowing the factors related to financial performance is very useful for the public interest, because it can be used as evaluation material to restore performance by taking into account the work scheme and its implementation. In addition, it can also be used as a benchmark for improving performance, especially local government finances in the next period.

Economic growth reflects economic activities that can be positive or negative. If in a period the economy experiences positive growth, then economic activity in the region will increase, and vice versa, if in a period the economy experiences negative growth, economic activity will decrease. This is possible because the rate of economic growth in a region is measured by the total output of all economic activities. So that one of the segments that can be affected by this is the government's financial performance in the region. (Nasution & Fitri, 2017).

Meanwhile, several studies have shown that the total assets of the region are one of the factors that have quite an effect on the financial performance of local governments. For example, research conducted by Simamora and Halim (2012) found that regional asset management factors affect the quality of local government financial management. Then the research of Mustikarini and Fitriasari (2012) also revealed that total assets had a significant effect on the performance score of the district/city government at a 99% confidence level which was in line with previous research by Sumarjono (2010) which found that the size of the local government had a positive effect on financial performance. district/city local government in Indonesia.

Then, one of the factors that is considered to be quite influential on the financial performance of a region is Leverage. Where, the research conducted by Weill (2003) revealed that leverage is a proportion that describes the amount of government debt from external parties compared to own capital. This indicates that if the amount of debt is greater than its own capital, it illustrates that the entity's main source of funding comes from external parties (Perwitasari, 2009). This of course puts a new burden on local governments which can also affect their financial performance.

The regional government as the party entrusted with the task of carrying out fiscal decentralization is expected to encourage the realization of the administration of the wheels of government, development and increasingly quality public services. Without exception, it is obligatory to submit a regional financial accountability report to assess whether the regional government has succeeded in carrying out its duties properly or not. The public as one of the development resources that plays two important roles in development, namely as a subject or behavior as well as an object of development wants transparency of the existing financial budgets in local governments.

Literature Review:-

Definition of Regional Autonomy

The term autonomy is etymologically derived from the Latin "autos" which means "alone", and "nomos" which means "rule". So that autonomy means self-regulation, self-regulation or self-governing. In Law No. 32 of 2004 Article 1 paragraph 5, the definition of regional autonomy is the right, authority, and obligation of an autonomous region to regulate and manage its own government affairs and the interests of the local community in accordance with statutory regulations. According to Suparmoko, regional autonomy is the authority of autonomous regions to regulate and manage the interests of local communities according to their own initiatives based on community aspirations.

The definition of autonomy in a narrow sense can be interpreted as independent, while in a broader meaning it is defined as empowered. Regional autonomy thus means the independence of a region in terms of making and making decisions regarding its own regional interests (Ubedilah et al, 2000: 170). According to another opinion, that regional autonomy is the authority of regional autonomy to regulate and manage the interests of the local community according to its own implementation based on the aspirations of the community, in accordance with statutory regulations.

Regional Financial Management

Halim (2007: 330) reveals that "regional financial management is the overall activity that includes planning, administration, reporting, accountability and supervision of regional finances".

In Government Regulation of the Republic of Indonesia Number 58 of 2005, regional financial management is all regional rights and obligations in the context of administering regional government which can be valued in money, including all forms of wealth related to the rights and obligations of the region, within the framework of the Regional Revenue and Expenditure Budget. (APBD).

Regional Financial Performance

In public sector organizations, after the operation of the budget, the next step is performance measurement to assess the achievements and accountability of organizations and management in producing better public services. "Accountability which is one of the characteristics of the application of good governance is not just the ability to show how to show that public money has been spent economically, effectively, and efficiently" (Mardiasmo 2002:121).

Economical is related to the extent to which public sector organizations can minimize the input resources used, namely by avoiding wasteful and unproductive spending. Efficiency is a comparison of output/input associated with performance standards or targets that have been set. "While effective is the level of performance standards or programs with predetermined targets which are comparisons of outcomes with outputs" (Mardiasmo, 2002: 4)

1. Economic Growth

Economic growth is the development of activities in the economy that causes the goods and services produced in society to increase and the prosperity of society to increase. The increase in the production of goods and services from a region, on a macro basis, can be seen from the increase in the value of gross regional domestic product (GRDP) every year, while GRDP can be measured on the basis of constant prices in an area (Maryanti and Endrawati, 2009).

2. Local Government Size

The size of the local government is reflected in the total assets of the local government (Noviyanti and Kiswanti 2016). These total assets represent resources that could potentially be used to improve local government performance. Local governments are required to provide good and comprehensive reporting regarding the mandatory disclosure of these assets (Marfiana and Kurniasih 2013).

3. Leverage

Leverage is the ratio between debt and equity. As the greater the leverage, the greater the dependence of the entity on external parties because the greater the debt owned by the entity, the lower the financial performance of the entity.

Research Methods:-

This study aims to analyze whether economic growth, total regional assets, and leverage affect the financial performance of West Sulawesi Province in 2010-2020. The data used were analyzed quantitatively. This study used an analytical observational approach with a time series design, the research data was in the form of numbers and analysis using statistics with a hypothesis testing study research design to test the effect between variables. The study used Multiple Linear Regression and

Moderated Regression Analysis using the SPSS program. The research uses three independent variables, namely Economic Growth, Total Regional Assets, and Leverage, then one dependent variable is Regional Financial Performance.

Results:-

Multiple Regression Analysis Test

After all the classical assumption tests are met, then multiple linear regression analysis is performed. To examine the effect of economic growth, total assets, and leverage on financial independence. The results of the multiple linear regression equation to see the effect of economic growth, total assets, and leverage on financial independence are shown by the results of the regression calculations as shown in table 5.14 below:

Table 5.8
Multiple Regression Calculation Results

Variable	Coefficient	Sig
(Constant)	-11.281	.892
X1	2.450	.014
X2	2.789	.041
X3	-.439	.145

Source: Output SPSS Version 26.0

From the table above, the multiple linear regression equation can be written as follows: Y = -11.281 + 2.450X1 + 2.789X2 - 0.439X3 The above equation can be explained as follows:

1. A constant of -11,281 means that if there is no influence of Economic Growth, Total Assets, and Levarge on Financial Independence, then the value of Financial Independence is -11,281.
2. The value of the coefficient of Economic Growth (X1) is 2.450; This means that if the other independent variables have a fixed value and Economic Growth has increased by 1%, the Regional Financial Performance (Y) will increase by 2,450. The coefficient is positive, meaning that economic growth is positively related to regional financial performance, so that if economic growth increases, regional financial performance will increase, and vice versa.
3. The coefficient value of Total Assets (X2) is 2,789; This means that if the other independent variables have a fixed value and Total Assets has increased by 1%, the Regional Financial Performance (Y) will increase by 2,789. The coefficient is positive, meaning that Total Assets is positively related to Regional Financial Performance, so that if Total Assets increase, Regional Financial Performance will increase, and vice versa.
4. The value of the coefficient of Levarge (X3) is - 0.439; This means that if the other independent variables have a fixed value and the Levarge increases by 1%, the Regional Financial Performance (Y) will decrease

by -0.439.

Determination Test (R2)

The coefficient of determination (Adj. R2) from the regression results shows how much the dependent variable can be explained by the independent variables.

Table 5.9

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.866[a]	.750	.625	1.1968
a. Predictors: (Constant), X3, X1, X2				

Source: Output SPSS Version 26.0

Based on table 5.15 above, it shows that the magnitude of the coefficient of determination (Adj. R Square) is 0.750. This means that the contribution of the influence of economic growth, total assets, and leverage on financial independence is 75%, while the remaining 25% is not disclosed in this study.

Hypothesis testing

Hypothesis testing in this study used multiple linear regression analysis. It aims to determine the effect of the independent variable on the dependent variable. The analysis technique was carried out using the SPSS 26.0 program.

T Test Results (Partial)

The statistical t test basically shows how far the influence of one independent variable individually in explaining the dependent variable is. This partial test is done by comparing the value of (alpha) with the p-value. If the p-value < (0.05), then H0 is rejected. So it can be said that there is a partial influence between the independent variable and the dependent variable, and vice versa. The following are the results of the t statistical test, which can be seen in table 5.16 below.

Table 5.10
Partial Test

Variabel	P-Value	Sig.	Decision
economic growth	0.014	0,05	effect
Total Assets	0.041	0,05	effect
Benefit	0.145	0,05	No effect

Source: Output SPSS Version 26.0

Based on table 5.16 above, it is shown that the Economic Growth variable has a P-Value value of 0.014 where the probability value is below 0.05. Thus, in accordance with the provisions in the test criteria, if the probability value is <0.05, it can be concluded that the variable economic growth has an effect on regional finance. Next, it is shown that the Total Assets variable has a P-Value value of 0.041 where this probability value is more than 0.05. Thus, according to the provisions of the test criteria, if the value of prob. <0.05, then this means partially the Total Assets variable has an effect on Regional Finance. Next, it is shown that the Leverage variable has a P-Value of 0.145 where the probability value is above 0.05. Thus, according to the provisions of the test criteria, if the value of prob. > 0.05, then this means that partially the leverage variable has no effect on regional finance.

F Test Results (Simultaneous)

The F statistical test basically shows how far the influence of the independent variables simultaneously in explaining the dependent variable. This simultaneous test is carried out by comparing the value of (alpha) with the p-value. If the p-value < (0.05), then H0 is rejected. So it can be said that there is a simultaneous influence between the independent variable and the dependent variable, and vice versa. If the p-value > (0.05), then H0 is accepted, which means that there is no effect between the independent variables on the dependent variable simultaneously. The following are the results of the F statistic test, which can be seen in table 5.17 below:

Table 5.11
Simultaneous Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.747	3	8.582	5.992	.031[b]
	Residual	8.593	6	1.432		
	Total	34.340	9			

a. Dependent Variable: Y

b. Predictors: (Constant), X3, X1, X2

Based on table 5.16 above, it shows that the independent variable has a P-Value value of 0.031 where the probability value is below 0.05. Thus, in accordance with the provisions in the test criteria, if the probability value is <0.05, it can be concluded that the variables of the Effect of Economic Growth, Total Assets, and Levarge together have an effect on Regional Financial Independence.

Discussion:

The effect of economic growth on the regional financial performance of West Sulawesi Province

Economic growth reflects economic activities that can be positive or negative. If in a period the economy experiences positive growth, then economic activity in the region will increase, and vice versa, if in a period the economy experiences negative growth, economic activity will decrease. This is possible because the rate of economic growth in a region is measured by the total output of all economic activities. So that one of the segments that can be affected by this is the government's financial performance in the region. (Nasution & Fitri, 2017).

Based on the results of the above data processing, Economic Growth has a positive and significant effect on the Financial Performance of Local Governments. This indicates that economic growth can increase PAD which in turn affects the ratio of PAD to transfer funds. Economic growth is the development of economic activity that leads to an increase in goods and services produced by the community and an increase in people's welfare. Economic growth is regional income that must be stimulated by its growth. Local governments with large revenues are expected to be able to provide good performance. So it can be stated that the higher the economic growth which indicates the level of regional potential, the better the financial performance of the regional government. These results are in line with research conducted by Nina and Fitri (2017) Nurlaela, et al (2018) and research by Antonius, et al (2017) which states that Economic Growth has a positive effect on Regional Government Financial Performance.

The Influence of Total Assets on the Regional Financial Performance of West Sulawesi Province

According to Government Accounting Standards (SAP) assets are economic resources controlled and/or owned by the Government as a result of past events and from which future economic and/or social benefits are expected to be obtained, either by the government or the government. community, and can be measured in units of money, including non-financial resources needed to provide services to the general public and resources maintained for historical and cultural reasons. According to (Rusmana Oman, Warsidi and Afiah).

The research findings from the estimation results in Table 4.7 show that the total assets variable has a positive and significant effect on financial performance, which means that if total assets increase or improve, it will affect financial performance to increase significantly.

Asset data management, especially those related to administrative reporting, receipts, and asset management data plays an important role in administration as a source of information in order to make reports and accountabilities effectively and efficiently. In the Minister of Home Affairs Regulation No. 17 of 2007 concerning Technical Guidelines for the Management of Regional Property, it also states that the cycle of regional property management is a series of activities and/or actions which include: a) needs planning and budgeting; b) procurement; c) receipt, storage and distribution; d) use; e) administration; f) utilization; g) security and maintenance; h) assessment; i) deletion; j) alienation; k) development, supervision and control; I) financing; m) claim for compensation. The importance of asset data management at the Regional Revenue and Asset Management Office is useful for improving the quality of data services so that management and information technology improvements can be made to support the work of human resources in management tasks (Ambarita, 2016). Therefore, there is an increase in various fields of activity in supporting service processes related to the administration of reporting, receipts, and asset management data to improve performance and services.

The Effect of Laverage on the Regional Financial Performance of West Sulawesi Province

Leverage is the ratio between debt and equity. Perwitasari (2010) has conducted research in the public sector, the results show that the greater the leverage owned by an entity, the entity has poor performance. This shows that the entity is unable to finance its own operations, so it requires funds from external parties. Leverage is the ratio between debt and equity. Perwitasari (2010) has conducted research in the public sector, the results show that the greater the leverage owned by an entity, the entity has poor performance. This shows that the entity is unable to finance its own operations, so it requires funds from external parties.

The research findings from the estimation results in Table 4.7 show that the leverage variable has a negative and insignificant effect on financial performance, which means that the greater the leverage possessed by an entity, the lower the performance of the entity.

Conclusion:-

After discussing specifically in accordance with the hypothesis through the results of research both descriptively and through statistical analysis, there are several things that were found from the results of this study, namely as follows:

1. Partially, the variable Economic Growth of West Sulawesi Province (X1) has an influence on the Regional Financial Performance of West Sulawesi Province (Y) in 2009-2019.
2. Partially, the variable Total Regional Assets of West Sulawesi Province (X2) has a positive and significant influence on the Regional Financial Performance of West Sulawesi Province (Y) in 2009-2020.
3. Partially, the Leverage variable of West Sulawesi Province (X3) is negatively related and has no significant effect on the Regional Financial Performance of West Sulawesi Province (Y) in 2009-2019.
4. Simultaneously the variables of Economic Growth (X1), Total Regional Assets (X2), and Leverage (X3) have an influence on the influence of the Regional Financial Performance of West Sulawesi Province (Y) in 2009-2019.

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