

**CHARACTERISTICS LOCAL GOVERNMENT AND  
GOVERNMENT PERFORMANCE:  
AN EMPIRICAL EXAMINATION OF THE LOCAL  
GOVERNMENT IN INDONESIA**

Kunti Sunaryo<sup>1</sup>  
Abdul Ghofar<sup>2</sup>

***Abstract: Characteristics Local Government and Government Performance : an Empirical Examination of the Local Government in Indonesia.** The role of local government since regional autonomy become greater. The local government has the authority to regulate and manage their own government. The implications of the implementation of regional autonomy is essentially created of the local governments independency. The level of independence of the region is highly dependent on the characteristics of the local government. Therefore the aim of this study was to examine the effect of the characteristics of the local government which is composed of the size of the local government, the regional welfare, general allocation fund and capital expenditure. Size of the local government is proxied by total assets, the regional welfare is proxied by local revenue or called PAD and general allocation fund is proxied DAU. During the period 2009 -2010 there are 42 local government financial reports are complete to be tested. The test results using multiple linear regression analysis showed that the only variable local revenue (PAD) affecting to the local governments independency, for the other three variables, total asset, general allocation fund (DAU) and capital expenditures does not affect the local governments independency.*

**Abstrak: Karakteristik Pemerintah Daerah dan Kinerja Pemerintah: sebuah Pemeriksaan empiris dari Pemerintah Daerah di Indonesia.** Peran pemerintah daerah sejak otonomi daerah menjadi lebih besar. Pemerintah daerah memiliki kewenangan untuk mengatur dan mengurus pemerintahan sendiri. Implikasi dari pelaksanaan otonomi daerah pada dasarnya dibuat dari kemandirian pemerintah daerah. Tingkat kemandirian daerah sangat tergantung pada karakteristik dari pemerintah daerah. Oleh karena itu tujuan dari penelitian ini adalah untuk menguji pengaruh karakteristik pemerintah daerah yang terdiri dari ukuran pemerintah daerah, kesejahteraan daerah, dana alokasi umum dan belanja modal. Ukuran dari pemerintah daerah proksi oleh total aset, kesejahteraan regional proksi dengan pendapatan lokal atau disebut PAD dan dana alokasi umum proksi DAU. Selama periode 2009 -2010 ada 42 laporan keuangan pemerintah daerah yang lengkap untuk diuji. Hasil pengujian menggunakan analisis regresi linier berganda menunjukkan bahwa satu-satunya pendapatan daerah variabel (PAD) yang mempengaruhi kepada pemerintah daerah independensi, untuk tiga variabel lain, jumlah aset, dana alokasi umum (DAU) dan belanja modal tidak mempengaruhi pemerintah independensi lokal

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<sup>1</sup> Dosen Program Studi Akuntansi Fakultas Ekonomi Universitas Pembangunan Nasional “Veteran” Yogyakarta, email: kunti\_73@yahoo.co.id

<sup>2</sup> Dosen Program Studi Manajemen Fakultas Ekonomi Universitas Pembangunan Nasional “Veteran” Yogyakarta, email: abdul\_ghofar21@yahoo.com

**Kata Kunci:** Pemerintah Daerah Independensi; Total aset; Pendapatan asli daerah (PAD); Dana Alokasi Umum (DAU); Belanja modal.

## PREFACE

Decentralization was commenced to be implemented in managing local governments since some legal bases were issued; first, TAP MPR-RI No. XV/MPR/1998 about managing regional autonomy, regulating, distributing, using the resources equitably, and balancing the central government and local government finances within the NKRI frame; second, law 22/1999 about local governments; third, law 32/2004 about regional autonomy. Based on those, local governments are granted authorities to manage their regions in order that the regional autonomy is expected to increase the performances of local governments optimally. The implication of regional autonomy is that the roles of local governments become more significant in providing public services and in achieving the national development purposes. Therefore, a system of monitoring, supervising, and measuring performances is needed systematically to assess the performances of local governments.

Based on law 32/2004, the definition of regional autonomy is the local governments' rights, authorities, and duties to manage their governmental matters and their societies' interests. Besides that, it also obliges the heads of local governments to make reports ( Laporan Penyelenggaraan Pemerintah Daerah/LPPD) to the central government. Article number 2 of Government Regulation number 3/2007 states that local governments must make reports on local governments' implementation (LPPD) to the central government, make reports on the accountability of local governments to the Regional House of Representatives (DPRD), and make reports to the civil society stating that LPPD includes implementing the decentralization matters, as well as assistive and general tasks of the governments. The content of LPPD of a regency or a municipality depends on the matters managed by each region and on the characteristics of each region.

Some research related to the characteristics of local governments with their performances have been done: Sumarjo (2010) did research on the influence of the local governments' characteristics on the financial performance; Syafitri (2012) did research on the influence of the characteristics of local governments on the financial statements of local governments/(Laporan Keuangan Pemerintah Daerah/LKPD) disclosure; Puspitasari (2015) did research on the influence of capital expenditure on growth of local governments performance. Considering the previous research mentioned above, the writer wants to retest the influence of the characteristics of local governments on the local governments independency in Indonesia in the period of fiscal years 2009-2010. This research aims at recognizing the characteristics of local governments consisting of the size of the local governments, total assets, general allocation fund, and capital expenditure influence the financial performance that is measured from local governments independency. This research is expected to give a contribution in developing knowledge especially in public sector accounting. Besides that, it is planned to give a recommendation to the local governments to re-evaluate their performances and therefore to perform better in the future.

### a. Regional Autonomy

Act Number 32 / 2004 about local governments, article number 1, clause 5, states that “regional autonomy is rights, authorities, and duties of the region to manage and organize its governmental matters and societies' interests in accordance with the laws”. In general meaning, regional autonomy is the region privilege to run the governance that includes all of fields of governance, except the foreign affair, defense and security, judiciary, fiscal and monetary, religion, and other fields that will be stated in the government regulation. The actions of autonomy cover the whole authority in the implementation, from planning,

executing, monitoring, controlling, and evaluating. According to Mardiasmo (2002), reasons that underlie the provision of extensive autonomy and decentralization are:

1. Excessive interference from the previous government created a problem in low capability and effectiveness of local governments to encourage the development process and life of the regions.
2. The demand of autonomy provision appeared to be the answer to enter the era of the new game that brought new rules in all aspects of life in the future. At one point of an era at which globalization cascade spreads widely, government will lose a lot of things in problems like international commerce, information and ideas, as well as finance transactions.

b. Objectives of Regional Autonomy

According to Abdul Halim (2004), the objectives of regional autonomy is distinguished into two sides of interests: the central government's interest and local governments' interest. From the side of central government, the objectives are political education, leadership training, political stability, and democratization of governmental system in the regions. In the meantime, the local governments' interest has three objectives:

1. To reach the political equity by implementing the regional autonomy, it is expected to give a chance to the societies to participate in any political activities in the region or province.
2. To create local accountability, autonomy will improve the local governments' ability to be concerned with the societies' rights.
3. To pursue local responsiveness, regional autonomy is expected to facilitate anticipation towards any possible problems and to accelerate social and economic development in the region or province.

c. Hypothesis Development

The main objective of local governments' work programs is to give the best service to the society. To give the best service, good assets are needed. Thus, sufficient resources and facilities are needed. The bigger the region, the more the assets. Thus, it is expected that the performance of local governments is also high. It is supported by a research by Sumarjo (2010) stating that the size of the local government has an influence on the financial performance of the local or provincial governments in Indonesia. Based on this, the first hypothesis is formulated as follows:

H1: The size of the local governments (total assets) influences the local governments independency.

Saragih (2003) in Sumarjo (2010) explains that an increase in Own-Source Revenue is a supporting factor of macroeconomic performance. A positive growth stimulates investments and at the same time investments will encourage an improvement on the region infrastructures. A good infrastructure and a high investment of a region will increase the Own-Source Revenue of the local government. Adi (2006) in Sumarjo (2010) states that an increase in Own-Source Revenue is in line with an increase in a public service quality, in which a good public service quality reflects a good financial performance of a local government. These descriptions are supported by a research by Lin et. al. (2010) which finds that revenue of a region influences the performance of the local government in China. Therefore, the second hypothesis is formulated as follows:

H2: The level of a region's welfare is proxied local revenue (PAD) influences the local governments independency.

Besides the size and level of a region's welfare, level of dependency of a district to the central government varies which is manifested in the form of receiving intergovernmental revenue. This is used to fund the governance implementation so that a public service to the societies can be established. The government will monitor the realization of

intergovernmental revenue allocation in order that it can motivate local governments to perform better. Thus, the higher the level of dependency to the central government, the better the service from local governments to the societies so that the financial performance of local governments will increase as well. This is supported by a research by Sumarjo (2010) stating that intergovernmental revenue has a positive influence on financial performance of a district or a region in Indonesia. This is the same with a research by Ahmad (2011) which concludes that intergovernmental revenue has a positive influence on the macroeconomic performance. Based on the description above, the third hypothesis is formulated as follows:

H3: Level of dependency on the central government is proxied general allocation fund (DAU) influences the local governments independency.

Based on law 32/2004 article 167 clause 1, provincial expenditure is used to protect and to increase the quality of the society's life. It can be reached by improving services of obligatory and optional matters among others: basic services of education, availability of health service facility, social facility, proper public service facility, and social insurance development. Therefore, the higher the local governments' expenditure, the higher the service that the governments should provide. It is supported by a research by Purba (2006) that proves that development expenditure has a positive influence on macroeconomic performance in Simalungun district and Rustiono (2008) concludes that government expenditure has also a positive influence on macroeconomic performance in Central Java. Sjoberg (2003) also finds that there is a positive relationship between government expenditure for consumption and investment with macroeconomic performance in Sweden during 1960-2011. Based on the descriptions, the fourth hypothesis is formulated as follows:

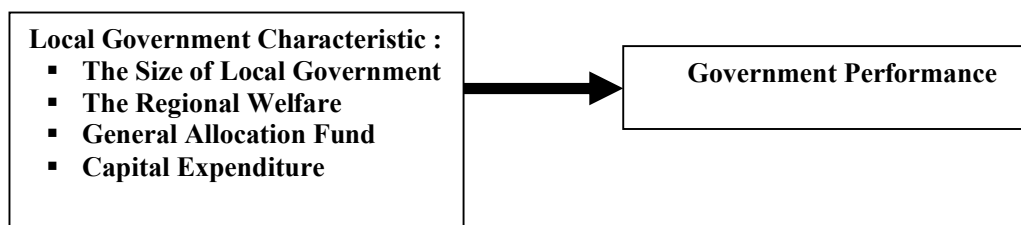
H4: Regional capital expenditure influences the local governments independency..

## RESEARCH METHOD

### a. Conceptual Framework

The conceptual framework used in this research can be illustrated as follows:

Figure 1  
Conceptual Framework



### b. Population And Research Sample

The population in this research includes all of the provincial governments in Indonesia in which there are 33 provinces. Sampling method used purposive sampling. The criterion to take the sample is provinces that have all data periode 2009 - 2010 consisting of balance sheets to acquire total assets, reports on realized budget to get own-source revenue (PAD), general allocation fund (DAU), and total budget outcome revenue.

### c. Definition Of Research Variables Operational And Measurement Of Research Variables

#### 1. Independent variables

Independent variables used in this research are local governments' characteristics which are:

- a. The size of regions  
The size of regions is measured from the total assets owned by the local government.
  - b. The level of regions' welfare  
The level of regions' welfare is measured from the amount of the local own-source revenue.
  - c. The level of dependency on the central government  
The level of dependency on the central government is measured from the amount of general allocation fund.
  - d. The regional capital expenditure  
The regional capital expenditure is measured from the amount of capital spent by the local governments.
2. Dependent variables  
Dependent variables used in this research are government performances is proxied by local governments independency ratio:

$$\text{Independency ratio} = \frac{\text{Local own source revenue (PAD)}}{\text{Central government assistance}}$$

Regression analysis can be done after the model of this research meets the requirement that is to be passed from the classic assumption test. The requirements to be passed from the test include the data are normally distributed, the data do not contain multicollinearity, heteroscedasticity, and autocorrelation. Therefore, before doing multiple regression analysis, classic assumption test is done beforehand. The result of the classic assumption test in this research shows that multicollinearity, heteroscedasticity, and autocorrelation do not exist and the data are normally distributed. In line with the proposed model research, to test the influence of local governments' characteristics on government performance, it uses multiple regression analysis. The equation used in testing the analysis is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where:

- Y : Independency ratio
- X<sub>1</sub> : Total assets
- X<sub>2</sub> : Local own-source revenue (PAD)
- X<sub>3</sub> : General allocation fund (DAU)
- X<sub>4</sub> : Capital expenditure
- e : Error term

## RESEARCH RESULT AND DISCUSSION

Descriptive statistics in this research is used to give information about the research variables which are local independency ratio, total assets, local own-source revenue, general allocation fund, and capital expenditure. Descriptive statistics in this research can be shown below:

Based on the processed data, it can be inferred that the local governments' total assets in Indonesia has a mean of 8 trillion rupiah at the minimum value of 800 billion rupiah in West Sulawesi in 2010 and at the maximum value of 30 trillion rupiah in East Java in 2010. Local own-source revenue (PAD) has a mean of 1 trillion rupiah with the minimum value of 60 billion rupiah in West Sulawesi in 2009 and the maximum value of 7 trillion rupiah in East Java in 2010. General allocation fund (DAU) has a mean of 600 billion rupiah with the minimum value of 40 billion in Bali in 2009 and the maximum value of 2 trillion rupiah in 2009 in East Java.

**Table 1**  
**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ASSET	42	8E+011	3E+013	8E+012	7.820E+012	6E+025
PAD	42	6E+010	7E+012	1E+012	1.904E+012	4E+024
DAU	42	4E+010	2E+012	6E+011	3.444E+011	1E+023
BM	42	1E+011	4E+012	6E+011	7.240E+011	5E+023
MANDIRI	42	.13	2.99	1.1038	.87927	.773
Valid N (listwise)	42					

Source : processed secondary data, 2014

Capital expenditure has a mean of 600 billion rupiah with the minimum value of 100 billion rupiah in Gorontalo in 2010 and the maximum value of 4 trillion rupiah in Nanggroe Aceh Darussalam in 2009. Local independency ratio has a mean of 1.103 with the minimum value of 0.13 and the maximum value of 2.99. Effectivity ratio has a mean of 0,8713 with the minimum value of 0.62 and the maximum value 1.16. After from classic assumption test the result shows a fit regression model which fulfills data normality assumption and do not contain multicollinearity, autocorrelation, and heterocedasticity. The result of multiple regression analysis is as follows:

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.946 <sup>a</sup>	.895	.884	.29977	1.355

a. Predictors: (Constant), BM, DAU, PAD, TASET

b. Dependent Variable: MANDIRI

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.323	4	7.081	78.793	.000 <sup>a</sup>
	Residual	3.325	37	.090		
	Total	31.648	41			

a. Predictors: (Constant), BM, DAU, PAD, TASET

b. Dependent Variable: MANDIRI

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-14.619	2.382		-6.136	.000		
	TASET	-.603	.131	-.669	-4.600	.000	.134	7.438
	PAD	1.064	.084	1.431	12.644	.000	.222	4.508
	DAU	.154	.072	.120	2.131	.040	.891	1.123
	BM	.006	.095	.005	.062	.951	.365	2.739

a. Dependent Variable: MANDIRI

Source: processed secondary data, 2014.

Based on the result of regression analysis, it shows that total assets, local own-source revenue (PAD), general allocation fund (DAU), and capital expenditure simultaneously influence government performance with significant probability of 0.0000. It means that the research model fits. Partially, only local own-source revenue (PAD) variable has an influence on government performance with probability less than 5%, however, although the

significance of total assets and general allocation fund (DAU) variables is less than 5%, it does not support the theory. Capital expenditure variable does not influence local governments' financial performance because it has probability of 0,951% higher than 5%.

The result of hypothesis analysis shows that only local own-source revenue (PAD) which is proven to influence local government's performance. This result supports the developing theory that local own-source revenue (PAD) can encourage the macroeconomic growth that will drive investments so that it can boost the local infrastructure improvement. An increasing of local own-source revenue (PAD) in a region will decrease the independency level on the central government, hence it will increase the local government independency.

The other three variables in this research, which are total assets, general allocation fund (DAU) and capital expenditure variables are not proven to have an influence on local government's performance. The result of this research shows that if the size of a region is bigger, which is shown by the big amount of the asset, it is hoped that it can decrease the independency level on the central government, or if the independency ratio is higher, but the result shows that if it has more asset, it will decrease the independency ratio of the region. It is due to the fact the biggest component of the total asset is tangible asset that is owned by the local government, in which the amount of the asset does not represent the region's capability to produce its local own-source revenue, so it does not influence the region's independency ratio. Based on the hypothesis testing, general allocation fund (DAU) is not proven to give an effect on the local government independency either. It is because the fund given by the central government is not related to the local government's ability in increasing its local own-source revenue (PAD). It means that eventhough the local government is considered to be independent, it will still get the fund as a controlling action from the central government since the fund actually is used to pay employees who are also employees of the central government. The third variable which is proven not to influence the local government's performance is capital expenditure variable. Capital expenditure is spent by the local government for improving its infrastructure in which it can support the local own-source revenue improvement. Local governments that already have a high own-source revenue are usually in the western Indonesia, that have built good infrastructure as well. Thus, there is cross subsidization for local governments that have not built good infrastructure. For this reason, capital expenditure does not influence local governments' independency ratio :

## CONCLUSION AND SUGGESTION

Local own-source revenue (PAD) variable is proven to give effect on local governments' performance that is measured from the local independency ratio. The result of this research shows that if the local governments' capability to produce their own-source revenue which means they can attract investors is higher, it will increase the local governments' independency so that it will decrease their dependency on the central government. Total asset, general allocation fund (DAU), and capital expenditure variables are not proven to influence local governments' financial performance. The result of this research depicts that total asset taken from local governments' balance sheet cannot be used to assess local governments' performance, while general allocation fund and capital expenditure are still given to local governments that are actually categorized as dependent, as a part of a controlling action from the central government and as a cross subsidization to help local governments that are still dependent on the central government. This research merely studies local independency ratio to measure local governments' performance. There is another measurement to do this, such as growth ratio. For next research, it is hoped to use another ratio to measure local governments' performance.

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