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The Influence of Company Size, Intergovernmental Revenue, and Leverage on Financial Performance: A Case Study of Regency Governments in West Java Province

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Abstract: This study aims to examine the influence of company size, intergovernmental revenue, and leverage on the financial performance of regency governments in West Java Province. A quantitative research approach was employed, utilizing descriptive analysis and panel data regression techniques. The study is based on secondary data drawn from the APBD (Regional Budget) financial reports and the balance sheets of local governments in West Java for the period 2019–2023. The analysis results indicate that company size, intergovernmental revenue, and leverage do not significantly affect financial performance. A larger company size does not necessarily lead to improved financial performance; rather, the effectiveness of budget management and fiscal policy plays a more pivotal role. Dependence on central government transfers does not always yield positive outcomes and may reduce regional incentives to enhance locally-generated revenue (PAD). Meanwhile, leverage demonstrates a positive correlation with financial performance, but its impact is statistically insignificant, suggesting that the effectiveness of debt utilization and fiscal strategy is more crucial in ensuring regional financial stability.

Keywords: Financial Performance, Intergovernmental Revenue, Leverage, Company Size.

INTRODUCTION

Based on the 1945 Constitution of the Republic of Indonesia, local government is the administration of government affairs by local governments and regional people's representative councils according to the principles of autonomy and assistance tasks with the principle of the widest possible autonomy within the system and principles of the Unitary State of the Republic of Indonesia. Autonomy authority requires local governments to maximize services and prosperity of the community by applying the principles of justice, democracy, equity and sustainability. Regional autonomy designs a financial balance between the central government and local governments that changes the rules of central and regional relations (Maryanti & Magfiroh, 2024; Oktavina & Manalu, 2018). Regional autonomy is also considered a strategic effort to direct regional development with independent regional autonomy that can carry out development as effectively or efficiently (Sumarjo, 2010).

Regional autonomy gives local governments the authority to regulate and manage community interests independently to develop and develop their respective regions so as to accelerate economic growth and improve public services to be more efficient, effective, and responsive. The implementation of the regional autonomy policy is the cause of regional finances to be managed independently and not too dependent on funding from the central government. Therefore, it is important to measure regional financial performance (Damanpour, 1991; Dwitama & Rahayu, 2020; Hertina, 2020).

In its implementation, regional autonomy is not as smooth as desired. Over the past year, legal issues regarding the implementation of regional financial performance have been in the spotlight. There are various financial regulations issued that are not accompanied by improved performance. This matter is evidenced by problems handled by local governments, such as acts of irregularities to obscurity in revealing financial governance (Kusumawardhani, 2012). Performance assessment can represent the performance of local governments, especially through financial performance assessment (Alkhatib et al., 2017; Ayu, 2018).

Financial performance is a study to find out how far the entity has carried out their objectives through the utilization of financial administration regulations (Faisal et al., 2018). Financial performance is an assessment that can be used to clarify the regional capability to implement financial regulations effectively or efficiently to provide the best service. Higher measurements are made a necessity to be fulfilled so that external parties determine to invest in a region. Performance assessment of financial information is determined according to the designed budget (Mardiasmo, 2009). Government financial performance is made something that plays a vital role for local governments and external parties (Ferdiansyah et al., 2018; Hertina et al., 2023).

Based on Government Regulation Number 29 of 2014 concerning the Government Agency Performance Accountability System, performance is the output/outcome of activities/programs that have been or are to be achieved in connection with the use of the budget with measurable quantity and quality. Financial performance is one measure to ensure the ability of regions to implement policies that have been made by the central government in accordance with statutory regulations. The performance of local governments in managing their finances can be analyzed using financial ratio analysis of the Local Government Financial Statements (LKPD), one of which is the efficiency ratio (Patrick, 2007; Prasojo, 2009). Financial performance can be assessed through how efficient local governments are in managing their finances. The following is the financial performance of Sumedang Regency, Subang Regency and Majalengka Regency, West Bandung Regency, Ciamis Regency and Karawang Regency 2019-2023 (Trisnawati, 2014; Triyono et al., 2019; Ulum & Sofyani, 2008):

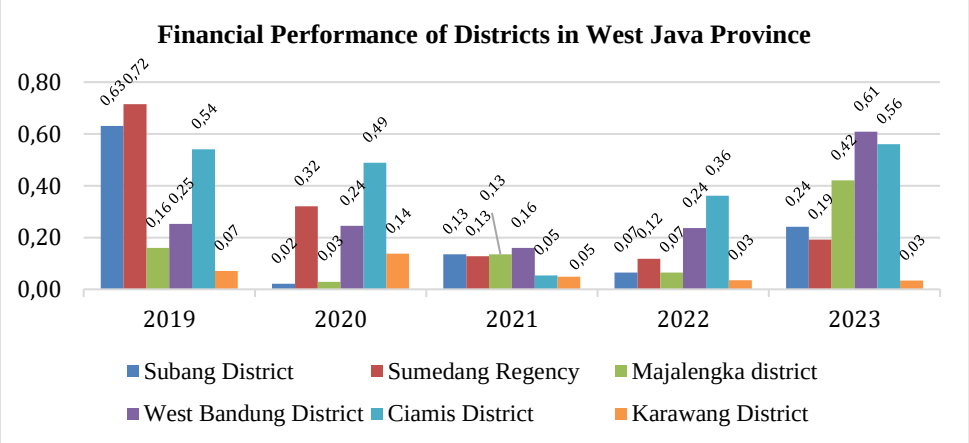


Figure 1. District financial performance in West Java Province 2019-2023

Overall, the financial performance of the various districts in West Java has shown a fluctuating trend in recent years. In general, this trend reflects an increasing effectiveness in regional financial management, which can support sustainable development if it continues to be strengthened by appropriate fiscal policies. The trend shows that after the peak in 2019, financial performance experienced a significant decline in the following years with a slight recovery in some regions in 2023. This could reflect the impact of external factors such as the COVID-19 pandemic or changing regional fiscal policies during the period.

METHOD

The research method used in this study is quantitative method, which is a scientific method to obtain data with specific purposes and uses (Sugiyono, 2021). This research combines descriptive and verification approaches. The descriptive method aims to describe or describe the variables studied as they are, namely Company Size, Intergovernmental Revenue, and Leverage and their effect on Financial Performance (Sekaran & Bougie, 2018). Meanwhile, the verification method is used to test hypotheses regarding the relationship between these variables through statistical testing (Sugiyono, 2021). The object of this research is local governments in West Java Province, with a population in the form of all district government financial reports during the 2019-2023 period, and a sample taken by purposive sampling from six districts that have complete data. The data used is secondary data obtained from local government financial reports. The analysis technique used is panel data regression analysis with the Common Effect Model, Fixed Effect Model, and Random Effect Model approaches. To choose the best model, Chow, Hausman, and Lagrange Multiplier tests are used, followed by classical assumption tests such as normality, multicollinearity, and heteroscedasticity tests. Hypothesis testing is done through a partial t test to determine the effect of each independent variable on regional financial performance (Ghozali, 2018; Purwanto, 2017).

RESULTS AND DISCUSSION

The following are the results of descriptive statistical analysis of financial performance, company size, intergovernmental revenue and leverage:

Table 1. Descriptive Statistics

	Y	X1	X2	X3
Mean	0.240363	4.91E+12	0.544308	0.024129
Median	0.159771	4.76E+12	0.583029	0.015699
Maximum	0.715038	1.02E+13	0.658212	0.084049
Minimum	0.021568	3.35E+12	0.202042	0.003544
Std. Dev.	0.206515	1.61E+12	0.109724	0.020413
Skewness	0.898387	2.009730	-1.863613	1.655353
Kurtosis	2.554717	7.221764	6.054710	4.622896
Jarque-Bera	4.283343	42.47419	29.02933	16.99320
Probability	0.117458	0.000000	0.000000	0.000204
Sum	7.210884	1.47E+14	16.32923	0.723883
Sum Sq. Dev.	1.236803	7.49E+25	0.349141	0.012084
Observations	30	30	30	30

Overall, the data shows significant variation across regions and years, especially in financial performance, government size, and intergovernmental revenue. Leverage has less variation than other variables, indicating stability in leverage levels across regions.

Statistical testing aimed at choosing whether it is better to use the commen effect square or fixed effect model used the chow test or F-test statistics by comparing the F-statistic and F-table before making the hypothesis.

Table 2. *Chow* Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.408419	(5,21)	0.8375
Cross-section Chi-square	2.784007	5	0.7332

From the regression results based on the Fixed Effect Model and the Common Effect Model using the Chow test, the F-statistic is obtained and the prob value is 0.7332> 0.05, so H0 is accepted or H1 is rejected so that the data model used is Common Effect.

From the regression results, the Lagrange Multiplier test results for the Common Effect Model with Random Effect were obtained by the Cross section Probability as follows:

Table 3. *Lagrange Multiplier* Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	2.643180 (0.1040)	2.438402 (0.1184)	5.081582 (0.0242)

From the regression results obtained LM test results for the Common Effect Model with Random Effect obtained Cross section probability of 0.0242 which is smaller than α = 5% so that H1 is accepted it can be concluded that the model that can be used is the Random Effect Model.

The normality test aims to test whether the statistical model of the research variables is normally distributed or not. By using the Jarque-Bera method with a probability value greater than alpha (0.139110> 0.05), it can be concluded that the residual data is normally distributed.

Table 4. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.058507	47.25508	NA
X1	5.61E-28	12.04586	1.130260
X2	0.124689	31.00913	1.172052
X3	3.704172	2.947030	1.205118

Based on the results of the multicollinearity test calculation above, it can be seen that the VIF value of the four independent variables is greater than 10. This indicates that there is no multicollinearity.

Table 5. Durbin Watson

R-squared	0.308006	Mean dependent var	0.240363
Adjusted R-squared	0.228161	S.D. dependent var	0.206515
S.E. of regression	0.181432	Sum squared resid	0.855860
F-statistic	3.857528	Durbin-Watson stat	1.671875
Prob(F-statistic)	0.020832		

The Durbin Watson test results were carried out with a Durbin Watson statistical value of 1.671875. If the value is between 1.411 and 2.589, the data is declared that there is no correlation between the resulting errors. Thus statistically, it can be stated that there is no violation of the autocorrelation assumption.

Table 6. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.275453	0.230873	1.193093	0.2579
X1	-2.31E-14	3.14E-14	-0.734480	0.4780
X2	-0.299396	0.182386	-1.641548	0.1289
X3	9.679318	7.492378	1.291889	0.2229
R-squared	0.349344	Mean dependent var		0.154675
Adjusted R-squared	0.171893	S.D. dependent var		0.101420
S.E. of regression	0.092292	Akaike info criterion		-1.704536
Sum squared resid	0.093696	Schwarz criterion		-1.515722
Log likelihood	16.78402	Hannan-Quinn criter.		-1.706547
F-statistic	1.968675	Durbin-Watson stat		1.612376
Prob(F-statistic)	0.177222			

Based on the table, the probability value of Company Size, Intergovernmental revenue, Leverage and Financial Performance is greater than the value of the 0.05 significance level, which indicates that there is no heteroscedasticity problem.

Table 7. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.275453	0.230873	1.193093	0.2579
X1	-2.31E-14	3.14E-14	-0.734480	0.4780
X2	-0.299396	0.182386	-1.641548	0.1289
X3	9.679318	7.492378	1.291889	0.2229
R-squared	0.349344	Mean dependent var		0.154675
Adjusted R-squared	0.171893	S.D. dependent var		0.101420
S.E. of regression	0.092292	Akaike info criterion		-1.704536
Sum squared resid	0.093696	Schwarz criterion		-1.515722
Log likelihood	16.78402	Hannan-Quinn criter.		-1.706547
F-statistic	1.968675	Durbin-Watson stat		1.612376
Prob(F-statistic)	0.177222			

Based on table 7, it can be explained that the calculated F value is 3,386 with a significance of 0.021 <0.05, this means that there is a significant effect of Company Size, Intergovernmental Revenue and Leverage together on Financial Performance.

Furthermore, the t test produces the equation Yit = 0.537796 - 3.94E-14X1it - 0.384X2it + 4.366X3it. This equation means that the value of Company Size has a regression coefficient of - 3.94E-14 and a significance value of 0.1079. This means that Company Size has a negative value and has no effect on financial performance, because the significance value is> 0.05. Thus, it can be concluded that H1, which states that company size has a significant effect on financial performance, is rejected.

The intergovernmental revenue variable has a regression coefficient value of - 0.384 and a significance value of 0.2864. This means that intergovernmental revenue has a negative value and has no effect on financial performance, because the significance value is> 0.05. Thus, it can be concluded that H2 which states that intergovernmental revenue has a significant effect on financial performance, is rejected.

The leverage variable has a regression coefficient value of 4.366 and a significance value of 0.0318. This means that leverage has a positive value and has an effect on financial performance, because the significance value is <0.05. Thus, it can be concluded that H3 which states that leverage has a significant effect on financial performance, is accepted.

Then, from Table 7 for the results of the Coefficient of Determination (R2) test, the R^2 value is used. The R^2 value in this study is 0.228. This means that the company size variable, intergovernmental revenue and leverage are able to explain the financial performance variable

by 22.8%. It can also be interpreted that 77.2% is influenced by other variables outside the variables mentioned in this study.

CONCLUSION

From the above research it can be concluded that company size has a negative relationship with financial performance, but the effect is not significant. This shows that the size of the assets owned by the local government does not directly determine its financial performance. Effectiveness in budget management, fiscal policy, and efficient use of resources play a greater role in determining regional financial performance than the size of assets owned by local governments.

Intergovernmental revenue has a negative relationship with financial performance, but the effect is not significant. This means that although transfer revenues from the central government are increasing, this does not always have a positive impact on local financial performance. In fact, high dependence on transfer funds can reduce regional incentives to optimize local revenue and improve the effectiveness of financial management. Thus, it can be concluded that intergovernmental revenue is not the main factor in determining regional financial performance, because it is possible that other factors such as budget management efficiency and fiscal policy are more influential.

Leverage has a positive influence on financial performance, and has a significant effect. This means that higher levels of leverage tend to correlate with improved financial performance. This shows that the level of debt owned by local governments always determines the quality of local financial management. However, other factors such as the efficiency of debt utilization, resource management, and fiscal policy play a greater role in determining regional financial stability. Company size, intergovernmental revenue and leverage together have a significant effect on financial performance.

Based on the research results and conclusions that have been presented, the Regency Governments of Sumedang, Subang, Majalengka, West Bandung, Karawang, and Ciamis are advised to focus more on the effectiveness of budget management by allocating funds optimally for programs that have a direct impact on public welfare. Strengthening the budget planning and supervision system needs to be done so that regional spending is efficient and on target. Efforts to optimize local own-source revenues (PAD) are also important, through exploring the potential of taxes, levies, and strengthening the local economic sector. Transparency and accountability in the use of transfer funds from the central government must be improved to maximize development impact. In terms of leverage management, local governments must be wise and selective in taking on debt and ensure long-term fiscal sustainability. A sound debt management strategy needs to be designed to maintain regional financial stability. On the other hand, fiscal capacity and financial policies need to be strengthened by encouraging innovation, spending efficiency, increasing revenue, and utilizing information technology for transparent and modern financial management. For future researchers, it is recommended to explore other variables that could potentially affect regional financial performance, such as the effectiveness of budget management, the quality of governance, the level of corruption, and compliance with fiscal policies.

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