

**CAPITAL EXPENDITURE, GOVERNMENT AND LEGISLATIVE SIZE, AND
FINANCIAL REPORT QUALITY IN IMPROVING LOCAL GOVERNMENT
PERFORMANCE IN CENTRAL JAVA (2017–2023)**



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Abstract

Local government performance is a vital indicator of fiscal decentralization success in Indonesia, shaped by institutional and structural factors. This study examines the effects of capital expenditure, local government size, legislative size, and financial reporting quality on the performance of 35 regency and municipal governments in Central Java from 2017 to 2023. Using a descriptive quantitative approach with multiple linear regression on secondary data, results show that capital expenditure significantly improves performance by 35.1%, local government size by 1.8%, while legislative size has a negative effect of 3.8%. Financial reporting quality has no significant impact. Collectively, the four variables contribute 36.6% to performance. These findings align with institutional theory, underscoring the need to match external demands with internal capabilities. The study offers policy recommendations to enhance fiscal governance and strengthen the institutional effectiveness of local governments sustainably.

Keywords: Capital Expenditure, Financial Statement Quality, Institutional Theory, Legislative Size, Local Government Performance

INTRODUCTION

Fiscal decentralization in Indonesia reflects the government's commitment to promoting regional financial autonomy while enhancing the quality of public services and community welfare (Siregar et al, 2025). In this context, the achievement of local government performance serves as a primary indicator for evaluating the success of such policies. Strong performance indicates efficiency in regional financial management and reflects public legitimacy and trust in local government institutions (Syukri, 2019). However, data from the Financial and Asset Management Agency of Central Java Province reveal significant disparities in fiscal independence among regencies and municipalities. In 2023, Semarang Regency recorded an independence ratio of 146.00% (classified as very high), while Klaten Regency and Wonosobo Regency recorded only 13.67% and 14.09%, respectively (classified as low). This demonstrates that most regions remain heavily dependent on transfers from the central and provincial governments, posing challenges to achieving the ideal standard of fiscal independence.

In addition, audit reports from the Audit Board of Indonesia (BPK) between 2017 and 2023 show that although the majority of regencies and municipalities in Central Java obtained an unqualified opinion (WTP), some still received a qualified opinion (WDP), such as Brebes Regency in 2018 and Purbalingga and Pemalang Regencies in 2022. This highlights persistent weaknesses in presenting high-quality and transparent financial reports. Field conditions confirm that most regencies and municipalities in Central Java have yet to achieve optimal fiscal independence, with several still in the "low independence" category (Shoba & Fidiana, 2022; Ibrahim & Digidowiseiso, 2023). Such dependence on transfer funds remains a critical challenge for realizing effective and sustainable fiscal decentralization.

In the framework of regional development, capital expenditure plays a crucial role as it is directed toward the acquisition of fixed assets and infrastructure that enhance public service quality and foster local economic growth. Allocations for capital expenditure are widely believed to improve efficiency and effectiveness in governance. Prior studies suggest that government capital investment positively influences local government performance in Indonesia (Nauw & Riharjo, 2021; Digidowiseiso et al., 2022; Niswani et al., 2022; Suleiman et al, 2025). However, other research reports insignificant effects (Padang & Padang, 2023; Ardelia et al., 2022). These discrepancies imply that contextual factors, such as regional characteristics, fiscal capacity, and budget management effectiveness may moderate the relationship between capital expenditure and local government performance, warranting further investigation.

Alongside capital expenditure, local government size is considered an important determinant of a region's capacity to perform governmental functions and deliver optimal public services. Typically measured by total assets, government size reflects fiscal strength and administrative capacity in managing regional affairs. Several studies indicate a significant positive correlation between local government size and financial performance (Maulina et al., 2021; Aulia & Rahmawaty, 2020). Conversely, some studies find the relationship insignificant (Millenia, 2022; Ramahdani & Trisnaningsih, 2022), indicating the need for further exploration of institutional size in the context of financial management effectiveness.

Legislative size is another variable influencing local governance dynamics. The number of regional legislative council (DPRD) members reflects political representation capacity and plays a central role in legislative processes, public advocacy, and fiscal oversight. On one hand, larger legislative bodies may enrich policy formulation through diverse perspectives and backgrounds. On the other hand, excessive legislative size may complicate coordination, prolong deliberations, and increase the risk of political fragmentation, thereby reducing budgetary decision-making efficiency. Some studies (Karno, 2021; Manalu, 2021) show that legislative size positively correlates with improved oversight and accountability, while others (Lubis, 2021; Musdirohmah et al., 2022) indicate that larger legislatures do not necessarily yield positive outcomes without effective governance mechanisms. These mixed findings call for further examination of how legislative composition affects local government performance in specific contexts.

The quality of financial reporting also plays a critical role in ensuring transparency and accountability in local government financial management. High-quality financial statements not only serve as benchmarks for fiscal performance but also demonstrate a local government's commitment to good governance. Hendaris & Sastradipraja (2024) emphasize that transparent and accountable audit opinions significantly enhance the quality of local government financial reporting. In practice, financial report quality is often measured through audit opinions issued by the BPK. Although most regencies and municipalities in Central Java have obtained WTP, some still receive WDP, indicating weaknesses in the presentation and disclosure of financial information (Binawati & Badriyah, 2022; (Yuniar et al., 2023).

The empirical variations in the field and the inconsistencies in previous findings form the foundation of this study. These differences suggest that the dynamics of how various factors affect local government performance remain insufficiently explored. Therefore, this research focuses on analyzing the extent to which capital expenditure, local government size, legislative size, and financial reporting quality contribute to local government performance in Central Java during the 2017–2023 period. This study aims not only to enrich the academic literature on the relationship between institutional factors and local fiscal performance but also to offer a holistic perspective on the effectiveness of fiscal decentralization.

From a practical standpoint, the findings are expected to provide strategic recommendations for local governments to formulate more responsive budget financing policies and build governance systems that are more transparent, accountable, and sustainable. Strategically, the results hold relevance for policymakers at both national and regional levels in designing targeted interventions to strengthen local fiscal capacity. Socially, the study aspires to foster governance practices emphasizing transparency and accountability, improve public service delivery, strengthen public trust in government institutions, and ultimately contribute to sustainable social welfare.

REVIEW OF LITERATURE

Institutional Theory

Institutional theory serves as a key foundation in explaining how public sector organizations, including local governments, develop and adjust their institutional behavior in response to external pressures to gain legitimacy. Meyer & Rowan (1977) argue that an

organization's formal structures are not solely shaped by technical efficiency considerations, but also by adaptation to prevailing social norms, dominant values, and expectations within its institutional environment. In the context of local governance, such pressures may manifest in several forms: coercive pressures through regulations and policies, mimetic pressures through the imitation of best practices from other regions, and normative pressures through demands for professionalism and public transparency (Istiqomah, 2018; (Kusuma et al., 2021). Within this framework, variables such as capital expenditure, organizational scale, legislative composition, and financial reporting quality can be viewed as institutional responses to both structural and symbolic external pressures. Accordingly, efforts to meet governance and public accountability standards are not merely technocratic processes but also strategic legitimacy-building measures aimed at enhancing local government performance in a sustainable manner.

Capital Expenditure

Capital expenditure refers to a type of local government spending allocated for the acquisition, construction, or improvement of fixed assets and infrastructure that provide long-term benefits in supporting the delivery of public services. This component represents a form of strategic investment aimed at strengthening institutional capacity and improving the efficiency and effectiveness of government service delivery. In the study by Mahadewi & Indraswarawati (2023), capital expenditure was found to have no significant effect on regional financial performance in Indonesia. Conversely, Anggih et al. (2024) reported that capital expenditure had a significantly negative impact. On the other hand, research by Andhini et al. (2023) identified a positive influence of capital expenditure on local government performance, both directly and through intervening variables such as locally generated revenue (Pendapatan Asli Daerah/PAD). These differing results indicate that the effectiveness of capital expenditure is highly dependent on the fiscal conditions and implementation capacity of each region. From the perspective of institutional theory, capital expenditure is not merely a technical budgeting instrument but also a response to external pressures regulative, mimetic, and normative. Therefore, a comprehensive analysis of the impact of capital expenditure on local government performance is required, one that considers not only budgetary aspects but also institutional legitimacy as an important supporting factor. Unfortunately, most previous studies have tended to examine these variables in isolation, without considering the simultaneous relationship between capital expenditure and other institutional factors.

Based on this gap, the present study formulates the following hypothesis:
H1: Capital expenditure has a positive and significant effect on local government performance.

Local Government Size

Local government size is often regarded as a reflection of institutional capacity and fiscal capability in effectively carrying out governmental functions. This indicator is commonly represented by the total assets owned by the region or the magnitude of the annual budget managed, thereby illustrating the potential resources that can be mobilized to support government performance. Previous studies, such as Maulina et al. (2021) and Aulia & Rahmawaty (2020), found that government size has a significant positive relationship with

regional financial performance. However, contrasting findings were reported by Anggih et al. (2024), who concluded that this variable does not exert a significant effect. These inconsistencies suggest that a larger organizational scale does not necessarily translate into effective resource management, as it may be influenced by bureaucratic complexity, the quality of human resources, and the governance practices implemented. Within the framework of institutional theory, local government size may generate coercive and normative external pressures, encouraging the adoption of accountability and efficiency principles. Thus, organizational size represents not only physical capacity but also adaptive capacity in responding to institutional demands. Unfortunately, studies that examine this variable simultaneously with capital expenditure and other institutional factors within a single analytical model remain limited.

Based on this premise, the study proposes the following hypothesis:
H2: Local government size has a positive and significant effect on local government performance.

Legislative Size

Legislative size refers to the number of members in the Regional House of Representatives (Dewan Perwakilan Rakyat Daerah/DPRD), which plays a crucial role in performing legislative functions and overseeing public financial governance at the local government level. Several studies, such as those by Nugroho & Prasetyo (2018) and Aprianto (2021), indicate that a larger number of legislative members can strengthen oversight functions over the executive branch, thereby positively influencing local government performance. Conversely, findings by Singa et al. (2024) suggest that legislative size does not always have a significant effect, possibly due to internal political complexities and weak oversight capacity in certain regions. These differences imply that the effectiveness of legislative oversight is not solely determined by the number of members but also by the quality of institutions, political independence, and integrity in carrying out oversight functions. From the perspective of institutional theory, legislative size can be understood as a form of normative and mimetic pressure that has the potential to either promote or hinder fiscal policy reform and public accountability. Unfortunately, studies that integrate this variable with other institutional factors in a single analytical model remain limited.

Based on this premise, the following hypothesis is proposed:
H3: Legislative size has a positive and significant effect on local government performance.

Quality of Financial Reports

The quality of financial reports reflects the extent to which information presented by local governments meets the standards of accuracy, transparency, relevance, and reliability in public reporting. Systematically prepared, timely, and informative reports provide a strong basis for stakeholders to evaluate the planning, allocation, and realization of budgets more efficiently. High-quality financial reporting not only promotes the efficient use of public funds but also strengthens the accountability of local government performance. Moreover, transparency in presenting financial reports contributes to building and maintaining public trust in government institutions, ultimately enhancing the legitimacy and effectiveness of public policy implementation.

Agung (2020) found that financial report quality contributes positively to improving accountability in local government performance. This finding is reinforced by Mulyani & Wibowo (2017), who identified that organizational commitment can moderate this positive relationship. Hendaris & Pradipta (2025) revealed that the implementation of an adequate accounting information system, supported by effective internal control, significantly improves the quality of local government financial reporting. In the context of Village-Owned Enterprises (BUMDes) management, Kustinah et al. (2022) highlighted the importance of designing an accounting information system adapted to local needs, to enhance financial management efficiency and strengthen transparency and accountability in its implementation.

Overall, prior research indicates that financial report quality plays a role far beyond a mere administrative function it serves as a strategic instrument in building governance that is transparent, accountable, and responsive to public needs. From the perspective of institutional theory, financial reporting quality can be seen as a form of public sector organizations' adaptation to various external pressures normative, regulative, and professional. Such adaptation is critical for gaining institutional legitimacy in the face of increasing demands for public accountability. However, the existing literature largely focuses on examining the direct relationship between financial report quality and performance, without deeply exploring the complex interactions between financial reporting variables and other institutional aspects such as capital expenditure and organizational size.

Based on this research gap, the following hypothesis is proposed:
H4: Financial report quality has a positive and significant effect on local government performance.

Simultaneous Effect of Variables on Local Government Performance

Local government performance is the end result of the interaction of various structural and institutional factors, which cannot be understood in isolation. Capital expenditure, government size, legislative size, and the quality of financial statements each play a strategic role in influencing the effectiveness and efficiency of governance. However, previous studies have shown varying results and have not incorporated the simultaneous interaction among these variables, creating the need for a more comprehensive examination. When these four variables are integrated within a single analytical framework, it becomes possible to identify how the dynamics of coercive, normative, and mimetic institutional pressures operate concurrently in influencing local government behavior.

Through this approach, it can be tested whether there are dominant or moderating effects among the variables that were not visible in partial models. Therefore, this study proposes the following hypothesis:

H5: *Local government capital expenditure, local government size, legislative size, and the quality of local government financial statements simultaneously and collectively have a positive and significant effect on local government performance.*

RESEARCH METHOD

This study adopts a descriptive quantitative approach aimed at examining and explaining the influence of capital expenditure, local government size, legislative size, and financial reporting quality on local government performance. This approach was selected

because it enables the generation of objective, systematic, and measurable data to explain the relationships among variables, supported by reliable statistical analysis tools.

The sample comprises 35 local governments (regencies and municipalities) in Central Java Province, covering the observation period from 2017 to 2023. Data were collected using the documentation method, utilizing secondary data obtained from the published Budget Structure of the Regional Revenue and Expenditure (APBD) available on the Directorate General of Fiscal Balance portal, Ministry of Finance of the Republic of Indonesia. To ensure accuracy during data entry, processing, and analysis, Microsoft Excel 2021 and IBM SPSS Statistics version 27 were employed as analytical tools.

The population of this study includes all regencies and municipalities in Central Java Province, totaling 35 entities (29 regencies and 6 municipalities). Considering the relatively small population size (fewer than 100 units), the sampling technique employed is census sampling (also referred to as saturated sampling), where the entire population is included in the sample (Sugiyono, 2019).

The independent variables analyzed include capital expenditure, local government size, legislative size, and financial reporting quality. The dependent variable is local government performance, measured using the fiscal independence ratio indicator. Each variable is defined based on relevant theories and regulations, including Government Regulation No. 12 of 2019, Minister of Home Affairs Regulation No. 77 of 2020, and the fiscal independence ratio concept as described by Halim (2007). In this study, performance is expressed in ratio form, while financial reporting quality is measured using an ordinal score based on the Audit Opinion issued by the Audit Board of Indonesia (BPK), where an Unqualified Opinion (WTP) is assigned a score of 1, and a Non-WTP opinion is assigned a score of 0.

The characteristics of the research data are described using descriptive statistics, including minimum, maximum, mean, and standard deviation values, to illustrate data distribution. The subsequent stage involves testing the classical assumptions of regression, which must be satisfied prior to model estimation. Normality testing of residuals is conducted using the Kolmogorov–Smirnov method to ensure that residual values are normally distributed. Multicollinearity testing is performed by calculating the Variance Inflation Factor (VIF) to detect high correlations among independent variables. Autocorrelation testing is carried out using the Durbin–Watson (DW) statistic to evaluate the presence of repeated patterns or correlations among residuals over time. Homoscedasticity testing is conducted using the Park test to determine whether the residual variance remains constant.

Once the model passes the classical assumption tests, the analysis proceeds with multiple linear regression to examine both the simultaneous and partial effects of independent variables on the dependent variable. This analysis aims to determine the extent of contribution from each independent variable to local government performance, both individually (t-test) and collectively (F-test). The coefficient of determination (R^2) is also calculated to assess the proportion of variance in the dependent variable explained by the independent variables. The regression model used in this study is expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Description:

Y = Local Government Performance (measured through the fiscal independence ratio)

- α = Constant, representing the value of Y when all independent variables are zero.
 β = Regression coefficient representing the contribution of each independent variable.
 X_1 = Capital Expenditure (calculated from the realization of regional capital expenditure)
 X_2 = Local Government Size (measured by total regional assets)
 X_3 = Legislative Size (measured by the number of Regional House of Representatives DPRD members)
 X_4 = Financial Report Quality (measured based on the Supreme Audit Board [BPK] audit opinion: WTP = 1, Non-WTP = 0)
 ε = *Error term*

RESULTS AND DISCUSSION

This study employs multiple linear regression as the primary approach to analyze the effects of several independent variables, namely capital expenditure, local government size, the number of legislative members, and the quality of financial statements on the performance of local governments. The research focuses on 35 regency and municipal governments within the Central Java Province, covering the observation period from 2017 to 2023. The data used in this study are secondary data obtained from documents on the realization of the Regional Revenue and Expenditure Budget (APBD), Local Government Financial Statements (LKPD), and audit opinions issued by the Audit Board of Indonesia (BPK). The selection of secondary data was based on considerations of validity, completeness, and relevance in systematically addressing the empirical analysis needs related to the fiscal performance of local governments.

Table 1.
Regression Analysis

Variable of Independence	Coefficient (B)	t	Significance	Remarks
(Constant)	-0,465	-1,468	0,145	Variabel not significant
Capital Expenditure (X_1)	0,351	4,278	0,000	Positive significant
Local Government Size (X_2)	0,018	2,087	0,039	Positive significant
Legislative Size (X_3)	-0,038	-2,365	0,021	Negative significant
Quality of Financial Reports (X_4)	0,079	1,525	0,131	Variable not significant

R ² (Coefficient of Determination)	0,366	(-)	(-)	Model explain 36,6% variation of Y
F-statistic	9,019	(-)	0,000	Regression model significant

Source: Data processed (2025)

This study employs the multiple linear regression method to examine the effects of independent variables, namely capital expenditure, local government size, legislative size, and financial statement quality, on the performance of district and municipal governments in Central Java Province during the 2017–2023 period. The analysis results indicate that capital expenditure has a positive and significant effect on improving the fiscal performance of local governments. This finding is supported by a regression coefficient value of 0.351 with a significance level of 0.000, indicating that each increase in capital expenditure allocation statistically has a direct impact on improving regional financial performance. This reinforces the view that government investment in the form of capital outlays for infrastructure and fixed assets plays an important role in supporting regional development efficiency and enhancing the quality of public services. Therefore, optimizing capital expenditure is consistent with the principles of fiscal accountability and contributes to more effective local financial management.

Based on the regression results, it was found that the scale of local government has a positive and significant effect on fiscal performance, with a coefficient value of 0.018 and a significance level of 0.039. This result indicates that regions with greater fiscal capacity and assets tend to be more capable of managing budgets and delivering public services effectively. A larger organizational size reflects the availability of sufficient resources, which ultimately supports more optimal planning and implementation of public policies.

Conversely, the legislative size variable shows a negative and significant effect on local government performance, with a regression coefficient of -0.038 and a significance level of 0.021. This means that a greater number of local parliament (DPRD) members tends to lower regional financial performance. Such a decline may be driven by increased complexity in the legislative process, potential conflicts between political factions, and high political coordination costs, all of which can hinder budget effectiveness and the implementation of development programs.

Meanwhile, the quality of financial statements measured based on the Audit Board of Indonesia's (BPK) opinion on the Local Government Financial Statements (LKPD) does not show a significant effect on regional performance. Although the coefficient value is positive at 0.079, the significance level of 0.131 indicates that the relationship is not strong enough to be deemed influential. This suggests that achieving an unqualified opinion (WTP) does not fully reflect the quality of budget implementation or its tangible impact on government performance outcomes.

The F-test results show that the four independent variables capital expenditure, local government size, legislative size, and financial statement quality collectively have a significant influence on local government performance. The F value of 9.019 with a

significance level of 0.000 confirms that the regression model used is adequate in explaining the relationship among the variables within the context of this study. On the other hand, the coefficient of determination (R^2) of 0.366 indicates that approximately 36.6% of the variation in local government performance can be explained by these four variables, while the remaining 63.4% is influenced by other factors outside the model. This opens opportunities for future research to explore additional variables in greater depth and comprehensiveness.

Discussion

The findings of this study show that the allocation of capital expenditure plays an important role in supporting the improvement of local government performance. This finding is consistent with previous studies by Nauw & Riharjo (2021) and Digidowiseiso et al. (2022), which indicate that strengthening capital expenditure allocation can enhance the efficiency of public services and accelerate local economic growth. Investments in infrastructure through capital expenditure make a tangible contribution to increasing access to basic public services. Improved infrastructure quality not only facilitates public access to services but also serves as a benchmark for the successful implementation of governmental functions. Therefore, capital expenditure can be regarded as a strategic instrument in shaping local government spending priorities to directly impact overall performance improvement.

Furthermore, the positive effect of local government institutional size on performance also supports the previous research findings by Maulina et al. (2021) and Aulia & Rahmawaty (2020), which explain that larger assets and fiscal capacity provide greater flexibility and authority for local governments in policy design, budget allocation, and optimization of local economic potential. Larger local governments tend to have more comprehensive organizational structures, more diverse human resources, and greater access to technology and information, enabling them to perform governmental functions more effectively. In the context of fiscal decentralization, government size also serves as an indicator of institutional capacity in absorbing and managing transfer funds as well as locally generated revenue (PAD) optimally. However, these results differ from the findings of Millenia (2022), which suggest that local government size does not always determine financial performance if it is not accompanied by efficient management and sound governance. That study emphasizes that large assets and budgets do not automatically lead to superior performance, particularly if not supported by strong internal control systems, transparency in reporting, and accountability in decision-making. Therefore, while government size can be a supporting factor, financial performance ultimately depends on the synergy between structural capacity and managerial quality in managing public finances.

Conversely, the negative and significant results regarding legislative size indicate that a larger number of local parliament (DPRD) members may actually slow down the budget decision-making process and create potential political conflicts. This result is supported by Lubis (2021) and Musdirohmah et al. (2022), who state that a larger legislature can increase coordination costs, broaden the scope for conflicting interests between factions, and weaken budgetary control if not accompanied by governance systems prioritizing transparency and accountability. In the context of agency theory, this condition reflects increased agency costs due to weak legislative oversight over the executive. However, this result contrasts with the findings of Karno (2021), who argues that a larger legislature can strengthen oversight of the executive, particularly when the legislative body is able to carry out its institutional role optimally. Karno emphasizes that diversity among legislative members in terms of

educational background, experience, and competence can serve as an institutional asset that enriches the deliberative process and enhances the quality of fiscal oversight. Therefore, these differing results indicate that the impact of legislative size on local government financial performance largely depends on institutional quality, internal coordination effectiveness, and commitment to good governance principles.

Meanwhile, the insignificant effect of financial statement quality on local government performance raises an interesting discussion. Although the WTP (Unqualified Opinion) from the Audit Board of Indonesia (BPK) is often used as a benchmark for good financial governance, this result shows that the rating does not necessarily reflect substantive performance achievements. This aligns with the view of Susanti et al. (2024), who assert that audit opinions reflect administrative compliance more than public service outcomes. This finding is also supported by Binawati & Badriyah (2022), who state that obtaining a WTP opinion is not always accompanied by efficient budget performance or improved public service quality. Thus, it can be concluded that not all institutional aspects exert the same influence on performance. Structural factors, such as spending allocation and fiscal capacity, play a greater role in improving local government performance compared to administrative aspects such as audit opinions. This highlights the importance of a comprehensive evaluation of the effectiveness of fiscal policies and institutional governance at the local level.

Based on the analysis and discussion, it can be concluded that the main issue raised in this study namely, the suboptimal performance of local governments in Central Java Province can be addressed through identifying and analyzing the institutional factors influencing it. Partially, capital expenditure and local government size have been proven to have a positive and significant impact on local government performance, indicating that government investment in infrastructure as well as large fiscal capacity and assets are crucial for improving public service efficiency and the effectiveness of governance. In contrast, legislative size shows a significant negative effect, indicating that a larger number of DPRD members does not necessarily have a positive impact and may even slow down decision-making processes if not accompanied by effective coordination and governance. Meanwhile, financial statement quality does not have a significant effect on performance, implying that audit opinions, often regarded as a key indicator of financial governance, do not fully reflect substantive fiscal performance achievements. These results also address the research question regarding whether capital expenditure, local government size, legislative size, and financial statement quality, both partially and simultaneously, affect local government performance, where simultaneously these four variables contribute 36.6% to the variation in fiscal performance. Therefore, this study confirms that improving local government performance is determined not merely by administrative reporting efficiency, but more significantly by structural capacity and institutional ability to manage resources strategically and accountably.

CONCLUSION

This study underscores that the success of fiscal decentralization is largely determined by the ability of local governments to manage financial resources efficiently through responsive and flexible institutional structures. The empirical findings emphasize that capital expenditure has a positive and significant contribution to performance improvement, indicating that investment in physical development and fixed assets plays a

key role in supporting the provision of public services and enhancing regional fiscal independence. Similarly, the size of local government, proxied by recorded asset value, has been proven to strengthen fiscal capacity and support the planning and implementation of development policies. On the other hand, the number of legislative members shows a significant negative relationship with regional performance achievements, suggesting that an overly large legislative structure may create complex political dynamics and slow budget decision-making. Meanwhile, the quality of financial statements, as measured by audit opinions, does not have a significant effect on substantive fiscal performance, indicating a mismatch between administrative compliance and actual development achievements. Overall, these four variables are able to explain part of the variation in local government performance, while the remainder is influenced by other factors not accommodated in this model. This reinforces the importance of a comprehensive evaluation of fiscal policy effectiveness and the need for strengthening institutional structures that are contextual and adaptive in supporting sustainable regional development.

Institutionally, the study's findings strengthen the view that normative, mimetic, and coercive pressures in public governance need to be balanced with the quality of policy implementation and inter-organizational synergy. The complexity of fiscal governance at the regional level is not only influenced by formal regulations, but also by internal capacity, control mechanisms, and local political contexts that shape organizational behavior. Therefore, improving local government performance requires an approach that is not solely based on administrative indicators but also considers the substantive outcomes of development and the quality of its implementation.

These findings provide deeper insights into the dynamics of the relationship between fiscal instruments and institutional structures in determining regional performance outcomes, particularly within a decentralized governance system. Furthermore, the results open the opportunity to reconsider the benchmarks of fiscal and institutional policy effectiveness at the local level, especially within a performance evaluation framework that goes beyond administrative aspects to focus on substantive development outcomes. By considering the contextual role of each region, a governance strengthening approach that is not uniform but rather based on local capacity and needs is necessary. Moving forward, greater attention to the synchronization between fiscal policy and institutional governance can serve as a strategic step in building a more resilient, innovative, and responsive local government system to meet the demands of sustainable development.

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