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The Influence Of Regional Financial Management And Governance On Regional/City Development Performance In Central Java (Case Study Of Districts/Cities In Central Java For The 2023-2024 Period)

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Abstract

This study aims to analyze the influence of regional financial management and governance on regional/city development performance in Central Java Province. The study uses a quantitative approach with a causal associative method. The study population is all district/city governments in Central Java Province, with samples selected using purposive sampling based on the availability of financial reports and development performance data. The data used are secondary data from regional government financial reports, BPK reports, LPPD reports, LKPJ reports, and BPS reports. The measurement instruments consist of the PAD effectiveness ratio for regional financial management, BPK audit opinions as a proxy for governance, and the Human Development Index (HDI) for regional development performance. Data analysis uses multiple linear regression with the classical assumption test, t-test, F-test, and coefficient of determination. The results show that regional financial management and governance do not have a significant effect on regional development performance. The conclusion of the study states that other variables outside the model are more dominant in influencing regional development performance in Central Java.

Keywords:Financial Management, Governance, Human Development Index, Local Government, Regional Development

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INTRODUCTION

Regional development is a key instrument for improving public welfare through the provision of infrastructure, improving the quality of public services, education, health, and economic growth. The success of development is determined not only by the size of the regional government's financial resources but also by the government's ability to manage those resources effectively and accountably. In the context of modern public administration, good governance is a crucial foundation for ensuring that every development policy and program is implemented in a transparent, participatory, responsive, and results-oriented manner. Various studies have shown that the application of good governance principles contributes to improving the quality of public services and regional government performance by strengthening transparency, accountability, effectiveness, and oversight in government processes (Mukoffi et al., 2023; Amyulianthy et al., 2023). Furthermore, the implementation of good governance is also a crucial factor in creating sustainable regional development that is oriented towards community needs (Nora et al., 2025; Sofyani et al., 2021).

On the other hand, regional financial management is a strategic element in supporting the achievement of development targets. Regional governments are required to plan, allocate, implement, and monitor budget use efficiently so that development programs can provide optimal benefits to the community. Good financial management enables regional governments to improve the quality of infrastructure, public services, and equitable development across regions. Several studies have found that the quality of regional financial management has a positive relationship with government performance and the effectiveness of development program implementation (Novitasari & Prabowo, 2020; Murniati, 2020). Therefore, regional financial management and good governance are two complementary factors in determining the success of regional development.

Despite this, various regions in Indonesia still face challenges in realizing optimal development. Problems such as low budget transparency, ineffective oversight, limited public participation, and weak coordination between regional government agencies are still common in governance. These conditions have the potential to lead to budget inefficiencies, delays in program implementation, and mismatches between development outcomes and community needs. As a result, regional development achievements often fail to deliver optimal impact on improving community welfare. Previous research has shown that weak implementation of good governance principles can reduce the effectiveness of governance and degrade the quality of local government

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performance (Amyulianthy et al., 2023; Mukoffi et al., 2023).

Another issue that remains a concern is the suboptimal management of regional finances in supporting the achievement of development targets. Limited fiscal capacity, low efficiency of regional spending, and inaccurate budget allocations often lead to development programs not proceeding as planned. Yet, effective regional financial management is a crucial prerequisite for improving the quality of public services and regional development performance. Research by Novitasari and Prabowo (2020) and Murniati (2020) shows that better regional financial management leads to higher regional government performance. Therefore, evaluating the quality of regional financial management is crucial to determine its contribution to improving regional government development performance.

Furthermore, research on the relationship between governance, regional financial management, and development performance continues to yield mixed results. Most previous studies have focused on the influence of these two variables on regional government performance in general, while studies specifically linking regional financial management and governance to regional/city development performance are still relatively limited, particularly in the context of district/city governments in Central Java Province. Central Java, a province with diverse development characteristics, requires empirical studies to more comprehensively understand the factors influencing regional development success (Amyulianthy et al., 2023; Nora et al., 2025).

Based on these phenomena and problems, this study aims to analyze the influence of regional financial management and governance on the development performance of local/city governments in Central Java Province. This research has a high urgency because the results are expected to provide input for local governments in improving the quality of governance and the effectiveness of financial management to support more optimal development. The novelty of this study lies in the use of regional development performance as a dependent variable measured at the district/city government level in Central Java Province, thus not only focusing on the performance of government organizations, but also on regional development achievements as a tangible outcome of the process of governance and regional financial management. Thus, this study is expected to enrich the literature on the relationship between good governance, regional financial management, and regional development performance in the context of local government in Indonesia.

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RESEARCH METHODS

This study uses a quantitative approach with a causal associative method to analyze the relationships and influences between research variables. The quantitative approach was chosen because this study focuses on hypothesis testing through numerical data analyzed using statistical techniques, allowing researchers to obtain objective and measurable conclusions. According to Sugiyono (2023), quantitative research is used to test theories through measuring research variables and analyzing statistical data to explain the relationships between variables. Similarly, Creswell and Creswell (2023) explain that quantitative research aims to examine the relationships between variables using standardized instruments and systematic statistical analysis. In this study, the independent variables consist of regional financial management (X1) and governance (X2), while the dependent variable is regional/city development performance (Y). The selection of these three variables is based on previous research findings showing that the quality of financial management and the implementation of good governance contribute to improving local government performance and regional development (Mukoffi et al., 2023; Novitasari & Prabowo, 2020).

The population in this study was all district and city governments in Central Java Province that have the authority to manage regional finances, implement governance, and organize regional development. The selection of this population was based on the consideration that local governments are the units of analysis directly responsible for achieving regional development indicators through the management of public resources and the implementation of development programs. According to Sudaryono (2022), the population is the entire research object that has certain characteristics according to the research objectives. Meanwhile, the research sample was determined using a purposive sampling technique, namely a sampling technique based on certain criteria relevant to the research objectives (Sugiyono, 2023). The sample criteria included district/city governments in Central Java Province that have complete and accessible regional financial reports, have development performance data available in official government reports, and present data consistently throughout the observation period. The use of purposive sampling is expected to produce a representative and relevant sample to explain the relationship between regional financial management, governance, and regional development performance.

This study uses secondary data obtained through documentation methods from various official sources, including regional government financial reports, audit reports from the Supreme Audit Agency (BPK), Regional Government Implementation Reports

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(LPPD), Accountability Statement Reports (LKPJ), and regional development statistics publications published by the Central Statistics Agency (BPS). According to Emzir (2023), documentation is a data collection technique carried out by reviewing written documents relevant to the research objectives. The regional financial management variable is measured using the Regional Original Revenue (PAD) Effectiveness Ratio, which is calculated from the comparison of PAD realization to PAD targets (Yanto & Astuti, 2020). The governance variable is proxied using the BPK audit opinion with a dummy approach, namely a value of 1 for an Unqualified Opinion (WTP) and a value of 0 for an opinion other than WTP (Astriana & Khoirunurrofik, 2024). Meanwhile, regional development performance is measured using the Human Development Index (HDI) which consists of dimensions of health, education, and a decent standard of living as determined by the Central Statistics Agency.

Data analysis was conducted in stages using statistical software. The first stage was descriptive statistical analysis aimed at providing an overview of the data characteristics through minimum, maximum, average, and standard deviation values. The next stage was the classical assumption test consisting of a normality test, a multicollinearity test, and a heteroscedasticity test to ensure the feasibility of the regression model used (Ghozali, 2023). Next, hypothesis testing was conducted using multiple linear regression analysis with the equation $Y = \alpha + \beta1X1 + \beta2X2 + e$. This model was used to measure the influence of regional financial management and governance on regional/city development performance. Model testing was carried out through the coefficient of determination (R^2) test, the F test, and the t test at a significance level of 5 percent to determine the model's ability to explain variations in the dependent variable and the significance of the influence of each independent variable on the dependent variable (Sugiyono, 2023; Ghozali, 2023).

The research procedure was carried out systematically through several stages. The first stage was the identification of the research problem based on the phenomena of regional development, regional financial management, and governance within the district/city governments of Central Java Province. The second stage was a literature study to build a conceptual framework, formulate hypotheses, and determine measurement indicators for research variables based on theory and previous research results (Mukoffi et al., 2023; Novitasari & Prabowo, 2020). The third stage was the collection of secondary data through financial report documentation, BPK audit reports, regional government performance documents, and regional development statistics publications. The fourth stage was data processing and analysis, which included

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descriptive statistics, classical assumption testing, multiple linear regression analysis, and hypothesis testing. The final stage was the interpretation of the research results, the preparation of conclusions, and the provision of recommendations related to improving the quality of regional financial management and governance to support regional/city development performance in Central Java Province.

RESULTS AND DISCUSSION

Data analysis

1. Classical Assumption Test Results

A. Normality Test

Table 1. Normality Test Before Removing Outlier Data

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		32
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.69137802
Most Extreme Differences	Absolute	.425
	Positive	.304
	Negative	-.425
Test Statistics		.425
Asymp. Sig. (2-tailed)		.000c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Based on the output of the One-Sample Kolmogorov-Smirnov normality test, it is known that the number of data tested is 32 samples. The mean residual value is 0.0000000 with a standard deviation of 0.69137802. In the Most Extreme Differences section, the absolute value is 0.425, the positive value is 0.304, and the negative value is -0.425. In addition, the Test Statistic value is 0.425 and the Asymp. Sig. (2-tailed) value is 0.000.

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Referring to the Kolmogorov-Smirnov test, data is considered normally distributed if the significance value is greater than 0.05. However, the test results show a significance value of 0.000, which is less than 0.05. This indicates that the residuals in the regression model are still not normally distributed. Therefore, further processing is required, such as data transformation or removing outliers, to meet the normality assumption and increase the validity of the regression analysis results.

Table 2. Normality Test After Removing the First Outlier Data

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		31
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.57590455
Most Extreme Differences	Absolute	.429
	Positive	.316
	Negative	-.429
Test Statistics		.429
Asymp. Sig. (2-tailed)		.000c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Based on the results of the One-Sample Kolmogorov-Smirnov normality test after the first stage of outlier removal, the number of analyzed data was reduced to 31 samples. The mean residual value was recorded at 0.0000000 with a standard deviation of 0.57590455. In the Most Extreme Differences section, an absolute value of 0.429, a positive value of 0.316, and a negative value of -0.429 were obtained. In addition, the Test Statistic value was 0.429 and the Asymp. Sig. (2-tailed) value was 0.000.

Based on the Kolmogorov-Smirnov test, data can be considered normally distributed if the significance value is greater than 0.05. However, the test results show a significance value of 0.000, which is still less than 0.05. This indicates that even after

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removing the first outlier, the residuals in the regression model still do not meet the assumption of normality. Therefore, the research data still requires further processing, such as removing further outliers or adjusting the data, to ensure a more normal distribution and better use of the regression model.

Table 3. Normality Test After Removing the Second Outlier Data

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		30
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.41578767
Most Extreme Differences	Absolute	.459
	Positive	.312
	Negative	-.459
Test Statistics		.459
Asymp. Sig. (2-tailed)		.000c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Normality testing after removing the second outlier uses the Kolmogorov-Smirnov test on the Unstandardized Residual value with a sample size (N) of 30. The test results show a Test Statistic value of 0.459 and an Asymp. Sig. (2-tailed) value of 0.000. Because the significance value is less than 0.05, it can be concluded that the residuals in the regression model after removing the second outlier are still not normally distributed. Thus, the regression model used does not meet the normality assumption.

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Table 4. Normality Test After Removing the Third Outlier Data

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		29
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.05483663
Most Extreme Differences	Absolute	.091
	Positive	.091
	Negative	-.071
Test Statistics		.091
Asymp. Sig. (2-tailed)		.200c,d
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Normality testing after the third stage of outlier removal was conducted using the Kolmogorov-Smirnov test on the Unstandardized Residual value with a sample size of 29 data. The test results obtained a Test Statistic value of 0.091 and an Asymp. Sig. (2-tailed) value of 0.200. A significance value greater than 0.05 indicates that the residuals in the regression model are normally distributed. Thus, after the third outlier was removed, the normality assumption in the regression model has been met and the analysis can proceed to the next stage.

Multicollinearity Test

Table 5. Multicollinearity Test

Coefficientsa			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	LN_X1	1,000	1,000

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	Governance	1,000	1,000
a. Dependent Variable: LN_Y			

Based on the results of the multicollinearity test in the Coefficients table, it can be seen that the variables LN_X1 and Governance each have a Tolerance value of 1.000 and a VIF value of 1.000. A Tolerance value greater than 0.1 and a VIF value less than 10 indicate that there is no high correlation between the independent variables in the model. Thus, the regression model can be said to not experience multicollinearity problems, so that the classical assumptions have been met and the analysis can proceed to the next stage.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.009	.032		.289	.775
	LN_X1	.002	.002	.210	1,150	.261
	Governance	-.039	.024	-.298	-1,634	.114
a. Dependent Variable: ABS_RES						

Based on the results of the heteroscedasticity test using the Glejser method in the Coefficients table, it can be seen that the LN_X1 variable has a significance value of 0.261 and the Governance variable of 0.114. The significance values of both variables are greater than 0.05.

According to the Glejser test, if the significance value of each independent variable is above 0.05, the regression model is declared free of heteroscedasticity. This means there is no inequality of variance in the residuals, and the residuals are homogeneous. Therefore, the regression model in this study meets the classical assumptions of heteroscedasticity and can proceed to the next stage of analysis.

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Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Test

Coefficientsa				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	20,407	.056	
	LN_X1	.002	.003	.146
	Governance	-.031	.042	-.142
a. Dependent Variable: LN_Y				

Constant

The results of the multiple linear regression test obtained a constant value of 20.407. This value indicates that if the regional financial management variables (LN_X1) and governance are considered unchanged or have a value of zero, then the regional government development performance (LN_Y) is estimated at 20.407. In other words, the constant describes the baseline value of development performance before being influenced by the independent variables used in the model.

Regional Financial Management

The regression coefficient for the regional financial management variable (LN_X1) is 0.002, with a positive direction. This means that every improvement in regional financial management will be followed by a 0.002 increase in local government development performance, assuming other variables remain constant. The beta value of 0.146 indicates that this variable's influence on development performance is positive, but its strength is relatively small in explaining changes in the dependent variable.

A. Governance

The governance variable has a regression coefficient of -0.031, indicating a negative relationship. This means that when the governance value increases by one unit, local government development performance (LN_Y) tends to decrease by 0.031, assuming other variables remain constant. A beta value of -0.142 indicates that the influence of governance on local government development

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performance is relatively weak in the regression model used.

Goodness of Fit Model Test Results

A. Results of the Coefficient of Determination (R2) Test

Table 8. Determination Coefficient Test

Model Summary			
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.205a	.042	-.032	.05691
a. Predictors: (Constant), Governance, LN_X1				
b. Dependent Variable: LN_Y				

Referring to the results of the coefficient of determination test listed in the Model Summary table, the R Square value was obtained at 0.042 and the Adjusted R Square was -0.032. The Adjusted R Square value below zero indicates that the independent variables, namely regional financial management (LN_X1) and governance, have very limited ability to explain changes in regional government development performance (LN_Y). In other words, the regression model used is not strong enough to explain the dependent variable optimally.

Quantitatively, these two variables can only explain approximately 4.2% of the variation in regional development performance. Meanwhile, the remaining 95.8% is influenced by factors outside the variables analyzed in this study. The Std. Error of the Estimate value of 0.05691 reflects the level of error in predicting the dependent variable. A smaller value indicates a better estimate. However, considering the low Adjusted R Square, it can be concluded that the explanatory power of the regression model in this study is still relatively weak.

F Test Results

Table 9. F Test

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.004	2	.002	.571	.572b
	Residual	.084	26	.003		

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	Total	.088	28			
a. Dependent Variable: LN_Y						
b. Predictors: (Constant), Governance, LN_X1						

Based on the F test output in the ANOVA table, the F value obtained was 0.571 with a significance value of 0.572. A significance value greater than 0.05 indicates that LN_X1 (regional financial management) and governance simultaneously do not have a significant effect on LN_Y.

This means that the two variables together are unable to significantly explain variations in local government development performance. Therefore, the regression model used in this study is still not strong enough to fully explain the relationship between the independent and dependent variables.

Hypothesis Test Results

Table 10. t-test

Coefficientsa					
Model		B	t	Sig.	Decision
1	(Constant)	20,407	363,837	.000	
	LN_X1	.002	.760	.454	Rejected
	Governance	-.031	-.741	.465	Rejected
a. Dependent Variable: LN_Y					

Hypothesis 1

Stating that LN_X1 (regional financial management) influences the performance of local government development (LN_Y). The test obtained a t-value of 0.760 with a significance level of 0.454. Because the significance value is greater than 0.05, H1 is rejected. This indicates that individually, local financial management does not have a significant influence on local government development performance.

Hypothesis 2

Stating that governance influences the performance of local government development (LN_Y). The t-test results show a t-value of -0.741 with a significance level of 0.465. This value is greater than 0.05, so H2 is rejected. This means that partially, governance does not have a significant influence on local government development

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performance.

DISCUSSION OF RESEARCH RESULTS

The Influence of Regional Financial Management on Regional Government Development Performance

Based on the results of multiple linear regression testing, the Regional Financial Management variable (LN_X1) obtained a coefficient of 0.002 with a positive relationship direction and a beta value of 0.146. Although the direction of the relationship is in accordance with the proposed theoretical framework, the results of the partial test (t-test) indicate that the effect is not statistically significant. Therefore, Hypothesis 1 (H1) in this study cannot be accepted.

This insignificance can be explained for several reasons. First, the measurement of regional financial management in this study uses the PAD Effectiveness Ratio. This ratio essentially only reflects the local government's ability to achieve established Regional Original Revenue targets. This indicator does not fully reflect the overall quality of financial management, such as the effectiveness of regional spending, the accuracy of budget planning, the efficiency of fund use, and the optimization of the budget to support development programs.

Second, the descriptive statistics show that the standard deviation of the development performance variable (LN_Y) is relatively small, at 0.05603. This value indicates that the HDI levels across regions in the research sample are relatively uniform, with no significant differences. This condition makes variations in regional financial management less able to explain significant changes in development performance.

Third, the Human Development Index (HDI), as a development performance indicator, is a macro indicator influenced by various external factors, such as central government policies, socioeconomic conditions, demographic characteristics, and the role of the private sector. Furthermore, the relatively short research period of 2023–2024 means that the impact of regional financial management on human development may not yet be fully evident.

Thus, although theoretically regional financial management is expected to contribute to improving development performance, the empirical findings in this study indicate that this influence has not been proven statistically significant.

The Influence of Governance on Regional Government Development Performance

The regression test results show that the Governance variable has a coefficient of -0.031 with a negative correlation and a beta value of -0.142. Although there is a

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directional relationship, the partial test results (t-test) show that the effect is not statistically significant. Thus, Hypothesis 2 (H2) in this study cannot be proven true.

This situation can be understood for several reasons. First, the governance variable is measured using the audit opinion of the Supreme Audit Agency (BPK), which is categorized as a dummy variable, with a score of 1 for an unqualified opinion (WTP) and 0 for any opinion other than WTP. This approach results in very limited variation in the data. This is evident from the average value of only 0.07, indicating that most regions in the sample share the same opinion category. This low variation makes this variable's contribution to explaining differences in development performance statistically weak.

Second, an unqualified opinion (WTP) essentially indicates a local government's level of compliance with accounting standards and the fairness of financial reporting. This opinion does not directly reflect the success of development program implementation or its impact on community welfare. Therefore, regions receiving an unqualified opinion do not necessarily have a higher level of development than other regions.

Third, the Adjusted R^2 value of -0.032 indicates that the research model has very limited explanatory power for variations in development performance. This means that the variables of regional financial management and governance simultaneously cannot adequately explain changes in development performance. This indicates the presence of other, possibly more influential factors, such as sectoral policies, regional investment levels, local economic conditions, and the demographic characteristics of each region.

Thus, based on the empirical findings in this study, governance has not been proven to have a significant influence on regional/city development performance in Central Java Province during the research period analyzed.

CONCLUSION

The results of this study indicate that regional financial management, as measured by the PAD effectiveness ratio, does not significantly impact regional/city development performance in Central Java Province. This indicates that the local government's ability to realize revenue does not necessarily reflect an increase in the quality of human development, as measured by the HDI. Furthermore, good governance, as measured by the Supreme Audit Agency (BPK) audit opinion, also does not significantly impact regional development performance. This condition indicates that aspects of administrative compliance and financial reporting accountability have not directly impacted development outcomes. The limitations of this study lie in the use of indicators that are still macro-based and the limited number of independent variables analyzed, resulting in the model's

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ability to explain variations in development performance being low. Future research is recommended to add other variables such as capital expenditure, regional investment levels, the quality of human resources, and public service innovation to make the research model more comprehensive. Practically, the results of this study provide implications for local governments to strengthen the quality of planning and spending effectiveness so that financial management is not only oriented towards achieving revenue targets, but also on the real impact on community welfare.

The main findings of this study confirm that neither regional financial management nor governance have significantly influenced regional/city development performance in Central Java. This indicates that regional development is more complex and influenced by many factors beyond the variables tested in this study. The conclusions of this study reinforce that improving development performance cannot simply rely on financial aspects and administrative governance, but also requires broader integration of development policies, including strengthening the regional economic sector, equitable development, and improving the quality of public services. Therefore, further research is recommended to use a more comprehensive modeling approach with a longer observation period and more in-depth analysis methods to more accurately capture the dynamics of regional development.

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