Examining Spending Efficiency and Budget Realization Growth in Regional Financial Performance: A Study of West Java Province

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Abstract

This study examines the impact of spending efficiency ratio and budget realization growth ratio on the financial performance of the Regional Inspectorate of West Java Province from 2020 to 2023. The study employs a quantitative approach with multiple linear regression analysis to measure the effect of independent variables on financial performance. The findings indicate that the spending efficiency ratio has a positive and significant effect on financial performance, demonstrating that optimal budget utilization enhances regional financial stability. Additionally, the budget realization growth ratio also has a significant impact, although its influence is relatively lower than spending efficiency. The results emphasize the importance of efficient financial management and budget allocation planning in improving regional financial performance. These findings provide insights for policymakers to enhance financial transparency and accountability in local government budget planning and execution.

Keywords: *Financial Performance, Spending Efficiency Ratio, Budget Realization Growth Ratio, Regional Finance, Public Sector Management.*

A. INTRODUCTION

Regional financial management plays a crucial role in maintaining fiscal stability and enhancing accountability in public budget utilization. In the context of local governance, spending efficiency and budget realization growth ratios are key indicators in assessing financial performance, reflecting how optimally public funds are allocated to achieve regional development goals. The Regional Inspectorate of West Java Province serves as an internal auditor responsible for ensuring the effectiveness of budget implementation and supporting the achievement of transparent and accountable financial governance.

In recent years, the realization of regional budget expenditures has fluctuated significantly, particularly during the 2020–2023 period, influenced by various factors, including the COVID-19 pandemic, which drastically altered budget distribution and utilization patterns. The spending efficiency ratio is a primary indicator for evaluating how effectively local governments allocate budgets without incurring waste. Meanwhile, the budget realization growth ratio measures the increase or decrease in budget absorption each year. Both variables are interrelated in assessing how well local governments manage their finances.

Previous research has shown that high spending efficiency positively

impacts financial performance as budgets are effectively allocated to programs that generate tangible benefits for society. However, studies on the influence of budget realization growth on financial performance remain limited, particularly in local government settings. Some findings suggest that high budget realization growth can enhance the effectiveness of public services, yet it may also pose risks if not supported by sound financial planning.

Thus, this study aims to analyze the influence of the spending efficiency ratio and budget realization growth ratio on the financial performance of the Regional Inspectorate of West Java Province during the 2020–2023 period. By employing a quantitative approach and multiple linear regression analysis, this study seeks to examine the relationship between the independent variables and financial performance as the dependent variable.

This research is expected to contribute academically by enriching discussions on regional financial management while providing policy recommendations for enhancing budget efficiency and optimizing budget realization growth. The practical implications of these findings can assist local governments in establishing a more transparent, accountable, and results-oriented financial management system.

B. LITERATURE REVIEW

1. Management Theory

Management theory provides a fundamental framework for understanding how organizations, including government institutions, allocate resources, optimize financial performance, and ensure accountability in public sector operations. In the context of regional financial management, effective management principles are essential to maintain fiscal discipline, improve efficiency, and support sustainable budgetary practices (Mardiasmo, 2018). Public sector financial management relies on strategic planning, financial forecasting, and risk management to ensure that public funds are used effectively and transparently (Halim, 2020). Studies in Indonesia highlight that weak institutional governance and political interference often lead to inefficiencies in budget allocation and public expenditure (Mahmudi, 2019). Implementing performance-based financial management is crucial in ensuring that government spending aligns with economic and development goals (Sutaryo & Sinaga, 2021).

Referring to the thoughts of Kadar Nurjaman, Harold Koontz, and Cyril O'Donnell, management is defined as an effort to achieve specific objectives through coordination and activities carried out by other individuals. Meanwhile, Hitt, Black, and Porter (2012) describe management as a series of processes involving the systematic and objective collection and management of resources to complete tasks within a company or organization. Based on these various definitions, it can be concluded that management is a discipline that focuses on coordinating individuals within an organization or company to work effectively and efficiently in achieving

predetermined goals.

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2. Financial Management Theory

Financial management is a core discipline concerned with the strategic allocation, control, and monitoring of financial resources to achieve organizational objectives (Brigham & Ehrhardt, 2020). Effective financial management ensures that resources are utilized optimally, enhancing the financial sustainability of an entity. In the public sector, financial management principles are applied to improve fiscal responsibility, economic growth, and social welfare. According to Mahmudi (2019), three key principles guide financial management in local governments: transparency, accountability, and effectiveness. Transparency in financial reporting ensures that stakeholders, including policymakers and the public, can scrutinize financial decisions. Accountability mechanisms, such as external audits and parliamentary oversight, help prevent fraud and mismanagement of public funds. Effectiveness is achieved when financial resources are allocated in a manner that maximizes developmental impact (Hood, 2010). According to Prawironegoro (2011), financial management refers to the activities undertaken by company owners and managers to obtain capital at the lowest possible cost and utilize it effectively, efficiently, and productively to generate profits. This implies that financial management is closely related to the strategy of determining how and from where a company secures its finances and how these resources are managed to support the continuity of the company's operations.

The concept of financial control and risk management is also essential in public financial management. Governments employ financial controls such as budgetary limits, fiscal rules, and expenditure ceilings to prevent overspending (Alt & Lassen, 2006). Risk management involves identifying financial risks and implementing measures to mitigate them, such as maintaining contingency reserves and improving revenue forecasting techniques (IMF, 2019). In the context of regional finance, financial management ensures that local governments allocate resources efficiently while maintaining fiscal discipline. Research by Allen, Hemming, and Potter (2013) highlights that the effectiveness of financial management at the regional level depends on strong governance structures, robust financial regulations, and competent financial officers. Local governments with well-developed financial systems tend to achieve higher levels of budgetary performance and service delivery efficiency.

3. Public Financial Management Theory

Public financial management in local governance is based on principles of transparency, efficiency, and accountability (Musgrave & Musgrave, 1989). Governments allocate resources optimally to meet societal needs, ensuring that expenditures contribute directly to economic and social development. A key component of PFM in local governments is performance-based budgeting, which evaluates how effectively allocated budgets produce expected outputs (Mardiasmo,

2018). According to Andrews and Hill (2003), local governments face unique challenges in financial management, including revenue volatility, fiscal constraints, and political influences. In developing countries, weak financial institutions and inadequate revenue collection mechanisms often lead to budget deficits and inefficient spending (Shah, 2007). To address these issues, international best practices recommend adopting multi-year budgeting frameworks and strengthening public expenditure tracking systems (World Bank, 2021).

One of the most debated aspects of PFM in local governance is the impact of fiscal decentralization on financial efficiency. While decentralization grants local governments autonomy, it also increases the risk of fiscal mismanagement if proper controls are not in place (Oates, 1999). Empirical evidence suggests that countries with well-structured fiscal decentralization policies tend to have better financial performance at the local level (Bahl & Linn, 1992). Therefore, this study will assess how local governments in West Java Province manage their financial resources efficiently.

4. Spending Efficiency Ratio

The spending efficiency ratio is a key financial indicator used to evaluate the effectiveness of budget execution. A higher spending efficiency ratio indicates better resource utilization, ensuring that budget allocations contribute directly to economic and social development (Mahmudi, 2019). Factors affecting spending efficiency include budget planning, internal control systems, and corruption levels. The relationship between spending efficiency and financial performance has been examined in multiple studies. Kim and Lee (2019) found that countries with higher public expenditure efficiency tend to experience higher economic growth and improved public service outcomes. Similarly, research by Rajkumar and Swaroop (2008) indicated that efficient government spending positively correlates with better human development indicators, particularly in education and healthcare.

Transparency in budget execution is a crucial determinant of spending efficiency. Studies have shown that corruption and lack of financial oversight reduce the efficiency of public expenditures (Mauro, 1995). Governments that implement strict financial accountability measures, such as electronic procurement systems and open budget portals, tend to achieve higher efficiency in spending (OECD, 2019).

5. Budget Realization Growth Ratio

The budget realization growth ratio measures the ability of local governments to absorb allocated funds effectively over a specific period. Halim (2020) suggests that stable budget realization growth enhances financial health, while inconsistent growth may indicate inefficiencies in budget planning and execution. Excessive budget growth without clear objectives can lead to financial mismanagement and increased fiscal risk.

This ratio illustrates a company's ability to maintain its economic stability by

understanding the developments in each component of revenue sources and expenditures. Amid economic growth and the expansion of the industrial and real sectors, this ratio can be effectively utilized to distinguish which potential opportunities need to be considered (Kasmir, 2012).

According to Schick (1998), governments must ensure that budget execution aligns with strategic development goals. Failure to do so results in fiscal imbalances, underutilization of funds, and misallocation of resources (Tanzi & Davoodi, 1997). Effective budget realization requires well-structured financial planning, strong institutional frameworks, and competent financial management personnel (Cangiano, Curristine, & Lazare, 2013).

6. Local Government Financial Performance

Local government financial performance refers to the ability of municipal or regional governments to manage their financial resources efficiently and effectively to achieve economic sustainability and high-quality public service delivery. Mahsun (2014) explains that regional financial performance reflects the level of success in implementing activities, programs, or policies to achieve the organization's objectives, targets, vision, and mission as outlined in its strategic planning. It is measured through various financial indicators, including revenue generation capacity, expenditure efficiency, fiscal autonomy, and budget solvency (Mahmudi, 2019). The financial performance of local governments plays a crucial role in regional economic stability and public service provision. According to Dollery and Worthington (1996), well-performing local governments maintain financial independence, minimizing excessive reliance on central government transfers. Financial autonomy enables municipalities to develop long-term investment plans that support economic growth and infrastructure development (Bird & Smart, 2002). One of the most critical components of local government financial performance is budgetary control and fiscal responsibility. Governments that implement effective budgeting frameworks and financial oversight mechanisms tend to have higher levels of fiscal discipline and lower risks of budget deficits (Oulasvirta, 2014). The introduction of performance-based budgeting (PBB) in several developed and developing economies has improved financial efficiency and transparency in the public sector (Moynihan & Pandey, 2010). Empirical studies suggest that strong institutional capacity and governance quality contribute to enhanced financial performance in local governments. Research by de Mello (2002) found that municipalities with robust financial regulations and effective tax administration achieve higher revenue collection rates, reducing fiscal deficits. Similarly, local governments with efficient expenditure tracking systems are better able to align their spending priorities with regional development goals (World Bank, 2021).

However, challenges such as corruption, weak internal controls, and political interference negatively impact local government financial performance. Studies indicate that mismanagement of public funds and lack of transparency in financial

reporting lead to inefficiencies in budget execution (Tanzi & Davoodi, 1997). Addressing these issues requires strengthened financial governance, improved audit mechanisms, and capacity-building programs for financial officers (Cangiano, Curristine, & Lazare, 2013). Given the importance of financial performance in regional governance, this study aims to analyze how spending efficiency and budget realization growth contribute to the financial performance of West Java's Regional Inspectorate. Understanding these dynamics will provide insights into how fiscal strategies can be optimized to enhance public sector financial sustainability and service delivery outcomes.

7. Previous Research Findings

Several studies relevant to this research include:

- Arifin (2021) found that spending efficiency positively affects regional financial performance, demonstrating the importance of efficient budget utilization.
- Sutrisno (2022) highlighted that the impact of budget realization growth varies, depending on governance quality and financial transparency.
- Amalinda (2021) showed that local governments with strong budget management frameworks achieve better financial efficiency and transparency.

This review of literature establishes the theoretical foundation for analyzing the relationship between spending efficiency ratio, budget realization growth ratio, and financial performance in local governments. Future research should expand on these concepts by incorporating longitudinal studies and cross-country comparisons to provide a more comprehensive understanding of effective public financial management strategies.

C. METHOD

1. Research Type

This study employs a quantitative approach using descriptive and causal methods. This method aims to measure the impact of the spending efficiency ratio and budget realization growth ratio on the financial performance of the Regional Inspectorate of West Java Province. The approach allows for an analysis of causal relationships between independent and dependent variables using secondary data from regional financial reports.

2. Data Sources and Types

This study utilizes secondary data obtained from the budget realization reports of the Regional Inspectorate of West Java Province for the period 2020–2023. The data includes the spending efficiency ratio, budget realization growth ratio, and key financial performance indicators of the regional government.

3. Population and Sample

The population in this study consists of all financial reports of the Regional Inspectorate of West Java Province from 2020 to 2023. The sample is selected using the purposive sampling method, where financial reports that contain complete and relevant data corresponding to the research variables are chosen.

4. Operational Definition of Variables

- Dependent Variable (Y): Financial performance of the region is measured based on the effectiveness and efficiency of budget management, analyzed through regional financial indicators.
- Independent Variable (X1): Spending Efficiency RatioA ratio that describes how effectively the budget is utilized to achieve development goals without unnecessary expenditures.
- Independent Variable (X2): Budget Realization Growth RatioA ratio that indicates the growth rate in budget realization from year to year.

5. Data Analysis Techniques

The data analysis techniques employed in this study encompass a comprehensive methodological framework to ensure the validity and robustness of the findings. Descriptive statistical analysis is utilized to present data in a structured manner through tables and graphical representations, providing a clear overview of the research variables and their distributions. To uphold the reliability of the regression model, classical assumption tests are conducted, comprising the normality test, which verifies whether the data distribution follows a normal pattern, the multicollinearity test, which examines potential strong correlations between independent variables that could distort the regression estimates, the heteroskedasticity test, which evaluates whether the variance of errors remains consistent across all observations, and the autocorrelation test, which assesses whether errors exhibit a systematic correlation over time, particularly relevant in time-series data. Furthermore, multiple linear regression analysis is employed to quantitatively examine the relationship between the spending efficiency ratio and the budget realization growth ratio with regional financial performance, allowing for an empirical assessment of the magnitude and direction of these effects. To ensure the statistical significance of the model, hypothesis testing is conducted, comprising the t-test, which evaluates the individual contribution of each independent variable to the dependent variable, the F-test, which determines the overall explanatory power and statistical significance of the regression model, and the coefficient of determination (R^2), which measures the proportion of variance in financial performance that can be attributed to the independent variables. Collectively, these analytical techniques provide a rigorous foundation for assessing the financial dynamics of regional governance, ensuring that the empirical results are both statistically sound and

substantively meaningful.

6. Research Model

Multiple Linear Regression Model, which is formulated as follows:

$$Y = a + b1X1 + b2X2 + \ldots + bnxn$$

Information:

- Y = Dependent variable (predicted value)
- a_0, a_1, a_2, ..., a_n = Regression coefficients
- X_1, X_2, ..., X_n = Independent variables

This research methodology is expected to provide an accurate analysis of the influence of spending efficiency ratio and budget realization growth ratio on regional financial performance. Thus, the findings of this study can serve as a foundation for local governments in optimizing financial management more effectively and efficiently.

D. RESULTS AND DISCUSSION

1. Results

1.1 Descriptive Statistics

Based on the data analysis results, the average spending efficiency ratio and budget realization growth ratio exhibited fluctuating trends over the 2020–2023 period. The following table presents a summary of the descriptive statistics:

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Spending Efficiency Ratio	43	7,65	97,74	46,4756	25,84998
Budget Realization Growth Ratio	43	7,63	258,14	39,5744	49,32348
Financial Performance	43	3,66	29,02	8,4065	4,98309
Valid N (listwise)	43				

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

The descriptive statistical results show that the Spending Efficiency Ratio has a minimum value of 7.65 and a maximum value of 97.74, with an average of 46.4756 and a standard deviation of 25.84998, indicating a significant variation in budget efficiency. The Budget Realization Growth Ratio has a minimum value of 7.63 and a maximum value of 258.14, with an average of 39.5744 and a standard deviation of 49.32348, suggesting substantial fluctuations in budget realization growth over the study period. Financial Performance ranges from 3.66 to 29.02, with an average of 8.4065 and a standard deviation of 4.98309, indicating that financial performance varies among observations but remains relatively stable compared to the other variables.

With the relatively high standard deviations in the Spending Efficiency Ratio and Budget Realization Growth Ratio, it can be concluded that there is a high level of

disparity in budget management patterns, which could potentially impact overall financial performance.

1.2 Classical Assumption Tests

Before conducting multiple linear regression analysis, classical assumption tests were performed to ensure that the data met the necessary statistical requirements:

- Normality Test: The test results indicate that the data is normally distributed, as confirmed by the Kolmogorov-Smirnov test.

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			43
Normal Parameters[a,b]	Mean		0,0000000
	Std. Deviation		3,90922910
Most Extreme Differences	Absolute		0,111
	Positive		0,111
	Negative		-0,082
Test Statistic			0,111
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		0,199
	99% Confidence Interval	Lower Bound	0,188
		Upper Bound	0,209
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. This is a lower bound of the true significance.			
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 329836257.			

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

Based on the table above regarding the Normality Test Results using the One-Sample Kolmogorov-Smirnov Test, the Asymp. Sig. (2-tailed) = 0.200, which is greater than the significance threshold of 0.05. This indicates that the regression model residuals are normally distributed, fulfilling the normality assumption.

The statistical parameters show that the mean residual is 0.0000000 with a standard deviation of 3.90922910, indicating that the residual spread is within a reasonable range. Additionally, the Test Statistic = 0.111, with the lower and upper confidence interval limits ranging from 0.188 to 0.209, further supporting that the residual distribution does not significantly deviate from a normal distribution.

- Multicollinearity Test: The results indicate that no multicollinearity issues exist, as

the Variance Inflation Factor (VIF) values are below 10.

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Spending Efficiency Ratio	0,631	1,585
	Budget Realization Growth Ratio	0,631	1,585
a. Dependent Variable: Financial Performance			

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

Based on the Multicollinearity Test results, the Tolerance value for the Spending Efficiency Ratio and Budget Realization Growth Ratio is 0.631, while the VIF values for both variables are 1.585. Since the Tolerance value is greater than 0.10 and VIF is less than 10, this confirms that multicollinearity is not present in the regression model. This means that the independent variables do not exhibit excessively strong linear relationships with one another, ensuring the validity of the regression estimates and allowing for accurate interpretation of the analysis results.

- Heteroskedasticity Test: The Glejser Test results indicate that no heteroskedasticity is present in the regression model.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,190	0,102		1,863	0,070
	Spending Efficiency Ratio	0,001	0,002	0,157	0,816	0,419
	Budget Realization Growth Ratio	0,001	0,001	0,309	1,602	0,117
a. Dependent Variable: ABSRESID						

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

The significance values (Sig.) for the Spending Efficiency Ratio and Budget Realization Growth Ratio are 0.419 and 0.117, respectively. Since both values are greater than 0.05, it can be concluded that heteroskedasticity is not an issue in this study. This confirms that the variance of residuals remains constant across all levels of the independent variables, ensuring that the regression model meets the assumption of homoscedasticity.

- Autocorrelation Test: The Durbin-Watson test results indicate that no autocorrelation is present in the regression model.

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.620[a]	0,385	0,354	4,00577	1,989
a. Predictors: (Constant), Budget Realization Growth Ratio, Spending Efficiency Ratio					
b. Dependent Variable: Financial Performance					

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

The Durbin-Watson (DW) value is 1.989, which falls within the range specified by the Durbin-Watson table formula (dU < DW < 4 – dU), calculated as (1.4151 < 1.989 < 2.3769). This confirms that the regression model does not exhibit autocorrelation, meaning that the residuals between observations do not follow a repetitive or correlated pattern. As a result, the model satisfies the assumption of independent residuals, ensuring that the regression estimates remain valid and unbiased.

1.3 Regression Analysis and Hypothesis Testing

A multiple linear regression analysis was conducted to examine the effect of the spending efficiency ratio and budget realization growth ratio on financial performance. The regression results are presented in the following table:

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0,082	1,945		-0,042	0,967
	Spending Efficiency Ratio	0,149	0,030	0,774	4,956	0,000
	Budget Realization Growth Ratio	0,039	0,016	0,389	2,488	0,017
a. Dependent Variable: Financial Performance						

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

From the regression analysis, the estimated regression equation is as follows:

$$Y = -0{,}082+0{,}149X1+0{,}039X2$$

Information:
Y = Financial Performance
X_1 = Spending Efficiency Ratio
X_2 = Budget Realization Growth Ratio

This regression equation indicates that the Spending Efficiency Ratio and Budget Realization Growth Ratio have a positive effect on Financial Performance, with a significance level of < 0.05. This suggests that the relationship is statistically significant. The

detailed breakdown of this relationship is as follows:

1) Interpretation of the Constant (Intercept)
   - The constant value (B) = -0.082, which means that if the Spending Efficiency Ratio (X_1) and Budget Realization Growth Ratio (X_2) are both zero, then Financial Performance would be -0.082.
   - This value indicates that under conditions where the independent variables have no influence, financial performance is nearly neutral but slightly negative, suggesting that other factors outside the model may also affect financial performance.
2) Effect of Spending Efficiency Ratio (X_1) on Financial Performance (Y)
   - The regression coefficient (B) = 0.149, meaning that for every one-unit increase in the Spending Efficiency Ratio, Financial Performance increases by 0.149, assuming other variables remain constant.
   - The t-value = 4.956 with a significance (p-value) = 0.000, which is less than 0.05, indicating that this effect is statistically significant.
   - Interpretation: Greater spending efficiency directly contributes to improving financial performance. This suggests that better budget management positively impacts regional financial optimization, ensuring that allocated funds are used effectively without unnecessary expenditure.
3) Effect of Budget Realization Growth Ratio (X_2) on Financial Performance (Y)
   - The regression coefficient (B) = 0.039, meaning that for every one-unit increase in the Budget Realization Growth Ratio, Financial Performance increases by 0.039, assuming other variables remain constant.
   - The t-value = 2.488 with a significance (p-value) = 0.017, which is less than 0.05, indicating that this effect is statistically significant.
   - Interpretation: Higher budget realization growth contributes to improved financial performance. This suggests that larger increases in budget realization from previous periods lead to better financial performance. However, since the coefficient is smaller than that of Spending Efficiency Ratio, it can be concluded that spending efficiency has a greater impact on financial performance than budget growth.

This regression equation indicates that the Spending Efficiency Ratio and Budget Realization Growth Ratio have a positive effect on Financial Performance, with a significance level of < 0.05. This suggests that the relationship is statistically significant. The detailed breakdown of this relationship is as follows:

Hypothesis Testing Results:

- t-test results indicate that the spending efficiency ratio has a significant effect on financial performance, with a significance value of < 0.05.
- t-test for the budget realization growth ratio also shows that this variable has a significant effect on regional financial performance.

The partial test results (t-test) show that both independent variables, Spending

Efficiency Spending Efficiency Ratio and Budget Realization Growth Ratio, have a significant effect on Financial Performance.

- The Spending Efficiency Ratio has a regression coefficient of 0.149, with a t-value of 4.956 and a significance of 0.000, which is well below 0.05. This confirms that this variable has a positive and significant effect on financial performance.
- The Budget Realization Growth Ratio has a regression coefficient of 0.039, with a t-value of 2.488 and a significance of 0.017, which is also less than 0.05, indicating a positive and significant effect on financial performance.

Thus, both independent variables have a significant impact on financial performance; however, the Spending Efficiency Ratio has a greater influence than the Budget Realization Growth Ratio, as shown by the higher regression coefficient and t-statistic values. This result confirms that efficiency in budget management is the primary factor in improving financial performance, while budget realization growth also contributes positively but with a lesser impact.

- F-test results indicate that the regression model as a whole is statistically significant in explaining the dependent variable.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	401,064	2	200,532	12,497	<,001[b]
	Residual	641,847	40	16,046		
	Total	1042,911	42			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Budget Realization Growth Ratio, Spending Efficiency Ratio

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

The F-test (Fisher Test) results show that the regression model has a significant effect on Financial Performance, with an F-statistic value of 12.497 and a significance (p-value) < 0.001. Since the significance value is much lower than 0.05, it can be concluded that simultaneously, the Spending Efficiency Ratio and Budget Realization Growth Ratio significantly influence Financial Performance.

The Sum of Squares Regression (401.064) compared to the Sum of Squares Residual (641.847) indicates that the model explains a substantial proportion of the variability in Financial Performance. Thus, the regression model used can be considered valid and appropriate in explaining the relationship between independent variables and the dependent variable, making it a reliable tool for further analysis in understanding the factors influencing overall financial performance.

- Coefficient of Determination (R^2) indicates the extent to which the independent variables explain variations in financial performance.

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620[a]	0,385	0,354	4,00577
a. Predictors: (Constant), Budget Realization Growth Ratio, Spending Efficiency Ratio				
b. Dependent Variable: Financial Performance				

Source: Data Processed by the Researcher Using SPSS Version 30, 2025.

The R^2 value obtained from the regression model is 0.385, meaning that 38.5% of the variability in Financial Performance can be explained by the Spending Efficiency Ratio and Budget Realization Growth Ratio, while the remaining 61.5% is explained by other factors not included in this regression model.

Additionally, the Adjusted R^2 value of 0.354 suggests that after adjusting for the number of independent variables, the model still retains a strong explanatory power, though slightly reduced. Furthermore, the R value of 0.620 indicates a moderately strong relationship between the independent and dependent variables in this model.

With a Standard Error of the Estimate (SEE) of 4.00577, it can be concluded that the model's predictive accuracy is relatively good, although additional variables may need to be considered to enhance its precision.

Overall, these results indicate that the regression model effectively explains the relationship between spending efficiency, budget realization growth, and financial performance, while also highlighting the influence of other external factors not captured within this study.

2. Discussion

a. The Significant Influence of Spending Efficiency Ratio on Financial Performance

Spending efficiency is a critical aspect of public financial management that directly contributes to enhancing financial performance by optimizing the allocation of public resources (Mahmudi, 2019). The findings of this study indicate that the spending efficiency ratio has a significant positive impact on financial performance, aligning with previous research by Arifin (2021), which demonstrated that efficient budgeting positively influences fiscal balance and the ability of regional governments to implement development programs effectively. This suggests that improved expenditure efficiency enables local governments to reduce waste, enhance program effectiveness, and strengthen fiscal sustainability (Mardiasmo, 2018). Rajkumar and Swaroop (2008) further emphasized that countries with higher public spending efficiency experience better human development outcomes, particularly in education and healthcare, reinforcing the argument that optimized regional spending contributes to socioeconomic improvements. Moreover, Hood (2010) highlighted that budget transparency fosters greater efficiency by minimizing the risk of fund misallocation, corroborating this study's findings that regions with better expenditure efficiency exhibit superior financial performance.

Kim and Lee (2019) also found that governments with stringent expenditure control mechanisms tend to achieve greater fiscal sustainability, demonstrating that public spending efficiency is closely associated with budget stability and long-term financial health. Similarly, Alt and Lassen (2006) underscored that effective expenditure

control reduces fiscal deficits and enhances the capacity of regional governments to finance long-term infrastructure needs. Within the context of fiscal decentralization, Fiszbein (1997) found that regions with greater fiscal autonomy but weak expenditure efficiency mechanisms tend to face higher budgetary pressures, highlighting the necessity of balancing budgetary flexibility with expenditure control. Gupta, Davoodi, and Alonso-Terme (2002) further argued that improving public expenditure efficiency accelerates regional economic growth by boosting public sector productivity and ensuring financial sustainability. Tanzi and Schuknecht (2000) reinforced this notion by demonstrating that inefficient public spending leads to an increased debt-to-GDP ratio, thereby reducing a region's ability to attract investment. These insights collectively affirm the importance of expenditure efficiency as a determinant of fiscal performance, supporting the broader literature on public financial management that underscores the need for strategic, accountable, and transparent budgetary practices to enhance local government financial performance. Consequently, this study's findings emphasize that improving spending efficiency is not merely a technical budgetary objective but a fundamental requirement for ensuring fiscal stability, promoting sustainable economic growth, and enhancing the effectiveness of public service delivery.

b. The Significant Influence of Budget Realization Growth Ratio on Financial Performance

The budget realization growth ratio plays a crucial role in determining the financial performance of local governments, as it reflects the efficiency of fund absorption and the capacity of regional authorities to execute planned expenditures effectively (Halim, 2020). The findings of this study confirm that the budget realization growth ratio has a statistically significant positive impact on financial performance, corroborating previous research by Sutrisno (2022), which highlighted that regions with higher budget realization growth tend to demonstrate improved fiscal stability, particularly when financial transparency and governance quality are high. This relationship suggests that a well-executed budget allocation enhances public service delivery and economic productivity, as emphasized by Schick (1998), who argued that government effectiveness is largely dependent on the consistency between budget planning and its realization. Rajkumar and Swaroop (2008) further posited that efficient budget realization leads to higher public investment returns, reducing fiscal inefficiencies and supporting economic development. However, excessive budget growth without proper controls can lead to financial mismanagement and increased fiscal risks, a concern echoed by Tanzi and Davoodi (1997), who found that unregulated budget expansions often result in misallocation of resources and heightened debt burdens. Similarly, Mauro (1995) demonstrated that weak financial oversight mechanisms in high-growth budget environments frequently foster corruption and inefficiencies in public sector management, potentially negating the benefits of increased budget realization. The World Bank (2021) emphasized that sustainable budget growth should be accompanied by fiscal discipline to prevent overspending and ensure optimal resource allocation. Furthermore, Oates (1999) noted that in decentralized fiscal systems, variations in budget

realization growth across regions are often attributable to disparities in institutional quality and revenue-generation capacities, reinforcing the argument that fiscal governance is a key determinant of budget effectiveness.

Research by Dollery and Worthington (1996) supports this perspective, illustrating that local governments with stable and predictable budget growth mechanisms tend to experience better financial performance than those with erratic or politically driven budget expansions. Moreover, Cangiano, Curristine, and Lazare (2013) recommended that budget realization growth should be monitored through performance-based financial frameworks to ensure alignment with long-term fiscal sustainability goals. This study's findings align with these perspectives by demonstrating that while budget realization growth is essential for improving financial performance, its impact remains conditional on effective budget planning, strong governance frameworks, and sound expenditure monitoring mechanisms. Consequently, regional governments must balance budget growth with fiscal prudence, ensuring that increased expenditure realization translates into tangible improvements in financial performance and public sector efficiency.

c. The Significance of the Multiple Linear Regression Model in Explaining Financial Performance

The results of the multiple linear regression analysis confirm that the spending efficiency ratio and budget realization growth ratio jointly have a statistically significant impact on financial performance, as indicated by the F-test results ($F = 12.497$, $p < 0.001$). This finding is consistent with prior research suggesting that financial performance in local governments is driven by both expenditure efficiency and budget realization effectiveness (Arifin, 2021). The significance of the model implies that financial governance frameworks, when designed to balance spending discipline with effective budget realization, lead to improved fiscal outcomes, aligning with the theory of performance-based financial management (Schick, 1998). Furthermore, this study supports the empirical findings of Rajkumar and Swaroop (2008), who demonstrated that government spending efficiency, combined with effective budget execution, results in enhanced service delivery and economic development. However, while the model successfully explains a significant portion of financial performance variation, it also highlights the importance of unobserved factors influencing fiscal health, as emphasized by Oates (1999), who argued that local government financial outcomes are contingent on broader institutional structures and revenue management strategies. The implications of this study's regression model findings resonate with the work of Hood (2010), who stressed that governments must integrate fiscal accountability mechanisms to ensure that expenditure growth does not lead to inefficiencies. Additionally, Alt and Lassen (2006) found that financial transparency and fiscal rules contribute significantly to fiscal stability, suggesting that the effectiveness of financial performance models depends on governance quality and compliance with budgetary controls.

While this study demonstrates the statistical relevance of the spending efficiency and budget realization variables, it also aligns with previous analyses highlighting the

necessity of expanding fiscal management models to incorporate variables such as debt sustainability, tax revenue efficiency, and intergovernmental fiscal transfers (World Bank, 2021). Studies by Tanzi and Davoodi (1997) further suggest that without strong anti-corruption measures, fiscal models may fail to fully capture inefficiencies caused by rent-seeking behavior in budget execution. Additionally, Dollery and Worthington (1996) observed that financial performance models must account for institutional and political factors that influence budgetary decision-making, particularly in decentralized governance systems. Consequently, while the regression model used in this study successfully identifies key determinants of financial performance, it reinforces the need for comprehensive fiscal governance frameworks that integrate expenditure control, budget execution efficiency, and institutional oversight to achieve long-term financial sustainability. This underscores the necessity for future research to refine fiscal performance models by incorporating broader economic and policy-related variables to ensure a more holistic understanding of financial management in local governments.

d. The Explanatory Power of the Model (R^2) and the Influence of Other Factors on Financial Performance

The findings of this study indicate that the coefficient of determination (R^2) is 0.385, meaning that 38.5% of the variation in financial performance is explained by the spending efficiency ratio and budget realization growth ratio, while the remaining 61.5% is influenced by other unobserved factors. This result aligns with previous research by Oates (1999), who argued that local government financial performance is shaped by a complex interplay of fiscal autonomy, revenue management, and institutional capacity. The fact that more than half of the variation in financial performance is attributed to other factors suggests that financial efficiency and budget realization, while significant, are not the sole determinants of fiscal health. This supports the work of De Mello (2002), who found that revenue mobilization strategies, intergovernmental fiscal transfers, and the effectiveness of local taxation systems also play crucial roles in shaping financial outcomes. Moreover, Rajkumar and Swaroop (2008) emphasized that governance quality significantly influences the efficiency of public expenditures, indicating that variations in financial performance may stem from differences in corruption levels, bureaucratic capacity, and institutional transparency. Similarly, the World Bank (2021) highlighted that fiscal performance is highly dependent on local governments' ability to generate stable revenue streams, manage debt effectively, and implement sound financial regulations.

This suggests that a more comprehensive model incorporating taxation efficiency, external funding, debt ratios, and fiscal policy frameworks may provide a more complete explanation of financial performance. Additionally, Tanzi and Davoodi (1997) found that corruption in public sector management weakens financial discipline and distorts budgetary allocations, leading to inefficiencies in financial outcomes, which may partially explain the unexplained variance in this study’s model. Furthermore, Alt and Lassen (2006) demonstrated that political cycles and electoral incentives affect public spending decisions, implying that variations in financial performance may also be

influenced by shifts in political priorities rather than purely economic considerations. Research by Mauro (1995) further supports this perspective, showing that regions with higher levels of corruption and weak financial oversight mechanisms tend to experience suboptimal budget utilization and inefficiencies in public investment returns. Given these insights, the findings of this study highlight the importance of adopting a broader analytical framework that integrates institutional quality, governance effectiveness, and revenue management strategies to fully understand the determinants of financial performance in local governments. Future research should expand on this model by incorporating additional macroeconomic and policy-related variables to provide a more comprehensive understanding of the financial dynamics affecting regional government performance.

e. The Validity of the Classical Assumption Tests in Ensuring the Reliability of the Regression Model

The results of the classical assumption tests indicate that the multiple linear regression model used in this study satisfies the fundamental assumptions of normality, multicollinearity, heteroskedasticity, and autocorrelation, thereby confirming its validity and reliability in explaining financial performance. The normality test, based on the Kolmogorov-Smirnov test, revealed that the residuals are normally distributed ($p = 0.200 > 0.05$), fulfilling a key requirement for conducting regression analysis, which aligns with previous findings by Gujarati and Porter (2009) that normal distribution of residuals improves the predictive accuracy of regression models. The multicollinearity test, evaluated through the Variance Inflation Factor ($VIF < 10$), confirmed that the independent variables do not exhibit strong collinearity, supporting the methodological standards established by Wooldridge (2016), who emphasized that eliminating multicollinearity ensures unbiased coefficient estimation. Furthermore, the heteroskedasticity test, using the Glejser test, demonstrated that variance in the residuals remains constant ($p > 0.05$), preventing biased standard errors, consistent with the econometric principles outlined by Stock and Watson (2015). The autocorrelation test, assessed through the Durbin-Watson statistic ($DW = 1.989$), indicated that residuals are independent, which is essential for ensuring the robustness of regression estimates, as previously asserted by Greene (2012).

The fulfillment of these assumptions enhances the credibility of the regression model, confirming that the relationship between spending efficiency, budget realization growth, and financial performance is statistically valid and free from significant estimation biases. However, the robustness of classical assumption tests does not necessarily eliminate all potential specification errors, as noted by Kennedy (2008), who argued that external shocks, omitted variables, or structural changes in fiscal policies can still influence regression outcomes. Additionally, the study by Baltagi (2021) emphasized that while classical assumption tests ensure statistical rigor, they should be supplemented with robustness checks, such as heteroskedasticity-consistent standard errors and time-series diagnostics, to further validate the model's effectiveness in different fiscal environments. Another critical aspect highlighted by Wooldridge (2016) is that while the

absence of autocorrelation ensures model stability, future studies should incorporate dynamic panel models or generalized least squares (GLS) estimators to account for potential fiscal inertia in government expenditures. Moreover, Gujarati and Porter (2009) stressed that normality assumptions, while important, may not always hold in large-scale public finance datasets due to policy shifts or external economic shocks. Consequently, the findings of this study confirm that the classical assumption tests validate the regression model used, reinforcing its statistical soundness while also indicating that future research should explore additional diagnostic tests and methodological refinements to improve predictive accuracy in the context of public sector financial management.

E. CONCLUSION

The findings of this study confirm that spending efficiency and budget realization growth significantly influence the financial performance of the Regional Inspectorate of West Java Province. The results indicate that effective budget allocation and utilization contribute to improved financial management, leading to greater fiscal stability and sustainability. The spending efficiency ratio demonstrates a stronger impact on financial performance than budget realization growth, suggesting that optimizing expenditure processes is a key determinant of financial success. Meanwhile, although budget realization growth positively influences financial performance, its effects are more dependent on governance quality and strategic financial planning. This study highlights the importance of implementing transparent and accountable budget management systems to ensure public funds are utilized effectively. Moreover, performance-based budgeting should be prioritized to enhance expenditure efficiency and fiscal responsibility. Policymakers should focus on strengthening institutional frameworks to support financial transparency, as this can minimize financial mismanagement and inefficiencies. The findings further suggest that regional governments should improve budget absorption capacity while maintaining prudent financial oversight. Ensuring a balance between budget growth and efficiency is crucial to achieving optimal financial outcomes. The study also underscores the role of financial monitoring mechanisms in improving the credibility of public finance management. Enhancing budget execution strategies can lead to more sustainable financial policies and better service delivery. Additionally, the results indicate that fiscal discipline plays a crucial role in sustaining financial health at the regional level. The study emphasizes the necessity of strengthening financial reporting and evaluation mechanisms to improve governance practices. A well-structured financial management approach can facilitate better alignment between budget allocation and actual expenditures. The empirical evidence supports the idea that strong financial planning mitigates fiscal risks and enhances financial stability. Future research should explore additional financial indicators, such as revenue generation

efficiency and debt management, to provide a more comprehensive understanding of financial performance determinants. Furthermore, integrating technology into financial management can enhance transparency and efficiency in budget execution. The results contribute to academic discussions on public sector financial management by offering insights into regional fiscal strategies. This study reinforces the need for governments to adopt best practices in financial oversight and policy implementation. Strengthening financial governance at the local level can lead to improved resource allocation and economic development. Lastly, the findings provide practical implications for policymakers seeking to enhance financial accountability and performance in regional administrations.

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