

Effect of Local Government Size, Own-Source Revenue and Effectiveness Ratio on Financial Performance

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Abstract: The implementation of regional autonomy encourages local governments to independently manage financial resources as part of fiscal decentralization and good governance practices. Through this authority, local governments are expected to improve accountability, transparency, and efficiency in regional financial management to support public services and regional development. However, differences in fiscal capacity, local revenue generation, and effectiveness in achieving revenue targets create disparities in local government financial performance. This study aims to examine the influence of local government size, own-source revenue, and effectiveness ratio on local government financial performance. Using a quantitative approach, this research analyzes secondary data from the financial statements of regencies and cities in the Special Region of Yogyakarta and East Java during 2019–2024. Multiple linear regression analysis was employed after conducting classical assumption tests. The results indicate that local government size and own-source revenue have a positive and significant effect on financial performance, while the effectiveness ratio does not significantly affect financial performance. These findings imply that institutional capacity and fiscal independence are more influential in improving financial performance than merely achieving revenue targets. This study contributes to the development of stewardship theory in the public sector by emphasizing the importance of institutional resource management and fiscal independence in strengthening local government financial performance within the framework of regional autonomy.

Keywords: Local Government Size, Own Source Revenue, Effectiveness Ratio, Financial Performance

INTRODUCTION

Bureaucratic Reform (RB) is a necessity in dealing with increasingly complex global dynamics and increasing public demands on government performance. The implementation of RB aims to realize quality governance, as affirmed in which RB is placed as a strategic instrument. Regulation of the Minister of State Apparatus Empowerment and Bureaucratic Reform of the Republic of Indonesia Number 3 of 2023 concerning Amendments to the

Regulation of the Minister of State Apparatus Empowerment and Bureaucratic Reform Number 25 of 2020, At the regional level, the implementation of RB is reflected in the implementation of regional autonomy which requires local governments to be able to manage resources independently, transparently, and accountably. The financial performance of local governments is a crucial indicator in evaluating the success of government administration, especially in the management of the Regional Revenue and Expenditure Budget (APBD). Optimal financial performance reflects the ability of local governments to manage revenues effectively and efficiently to support regional development and improve the quality of public services (Khoiriyyah & Alliyah, 2025).

These improvement efforts are encouraged through improving governance, strengthening accountability, and improving the quality of apparatus resources This policy is strengthened through the National Long-Term Development Plan (RPJPN) which emphasizes the importance of increasing the effectiveness of government administration and the use of technology in national development. Digitalization is directed as an instrument to improve the quality of regional financial governance and accountability (Tandiseru & Weight, 2023).

The implementation of regional autonomy gives greater authority to local governments in managing resources, formulating policies, and evaluating the implementation of their own government. The fiscal decentralization mechanism helps the Central Government to give authority to local governments to regulate and assess financial performance independently as a form of application of the principles of accountability and good governance. This authority is reflected in the management of the Regional Revenue and Expenditure Budget (APBD), where local governments have the flexibility to explore sources of revenue, determine expenditure allocations, and evaluate the effectiveness of regional financial management. Based on this context, financial performance measurement is an important aspect because it can describe the capacity and capabilities of local governments in carrying out public service functions effectively, efficiently, transparently, and accountably. In addition, financial performance measurement also serves as a basis for evaluation for the central government in assessing the level of fiscal independence and the success of the implementation of regional autonomy (Mahmudi, 2016).

Therefore, financial performance measurement not only serves as an administrative evaluation tool, but also an indicator of the success of local governments in improving community welfare through quality financial management. In addition, the measurement can be used to see the level of regional fiscal independence in reducing dependence on transfer funds from the central government (Putri & Ratnawati, 2023).

One of the factors that is suspected of affecting the financial performance of local governments is the size of local governments. The size of the local government indicates the amount of resource capacity owned by a region, both from the total assets, income, and operational capabilities of the government. The larger the size of the local government, the greater the government's ability to carry out public services, manage regional assets, and optimize its economic potential. This statement is strengthened by the results of the study and shows that the size of local governments affects the financial performance of local governments. Thus, the size of the local government can be used as a representation of the institutional capacity of local governments in managing finances optimally Tandiseru & Weight, (2023).

In addition to the size of local governments, Own Source Revenue (PAD) is also one of the important indicators in measuring the financial performance of local governments. PAD reflects the ability of the region to explore and utilize the potential of the local economy as a source of independent income. The higher the PAD, the higher the level of regional fiscal independence in financing government and development needs without relying too much on transfers from the central government. stated that the increase in PAD shows the success of local governments in optimizing the potential of the local economy so that it has a positive

impact on regional financial performance. These findings are in line with research that proves that PAD has a significant effect on the financial performance of local governments. PAD is seen as able to reflect the quality of financial management as well as the fiscal ability of local governments Ardelia et al., (2022) (Putri & Ratnawati, 2023).

Another factor that is also used in measuring the financial performance of local governments is the effectiveness ratio. The effectiveness ratio shows the ability of local governments to realize revenue targets that have been set based on the real potential of the region. The higher the effectiveness ratio, the better the ability of local governments to achieve regional revenue targets. explained that the effectiveness ratio is measured by comparing revenue realization to the targets that have been set in the APBD. The ratio reflects the quality of regional budget planning and implementation, especially in revenue management. It also shows that the effectiveness ratio can be used to assess the quality of the financial performance of local governments, although under certain conditions high effectiveness does not necessarily indicate optimal quality of financial management because it can be influenced by relatively low target setting. The relationship between the ratio of effectiveness and financial performance of local governments is still relevant to be empirically retested Mustafa et al., (2009) Cheryll et al., (2025).

Based on data from the Central Statistics Agency in 2024, reviewed from the regional aspect, Java Island is the main contributor to the national GDP, which shows the dominance of economic activity in the region compared to other regions. This condition reflects the difference in economic potential between regions that can affect the capacity of local governments to manage finances optimally. These differences also indicate that there is an imbalance in development between regions that has the potential to affect the effectiveness of regional financial management (Intania & Sari, 2023).

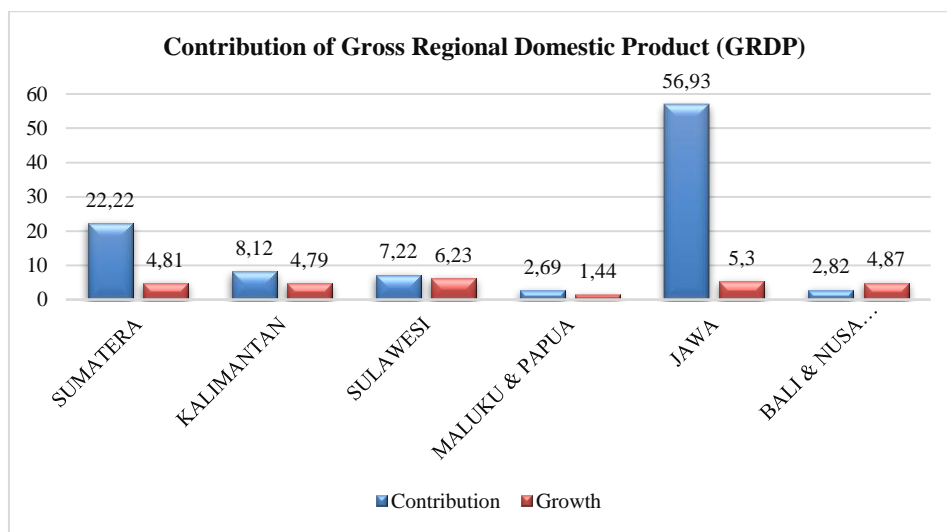


Figure 1. GRDP Contribution
Source: Central Statistics Agency 2024

Based on figure 1 above, Java Island contributes around 56.93% to the national GDP, much higher than other regions such as Sumatra (22.22%) and Kalimantan (8.12%). In addition, the economic growth rate of Java Island also reached around 5.30%, which shows the dominance of national economic activity in the region. This high contribution reflects strong fiscal capacity, especially in increasing PAD as the main source of regional revenue. At the provincial level, economic conditions in Yogyakarta and East Java also showed relatively good performance. Thus, the greater the contribution of a region to the national GDP, the greater the potential of the region in achieving optimal financial performance to support development and improve the quality of public services.

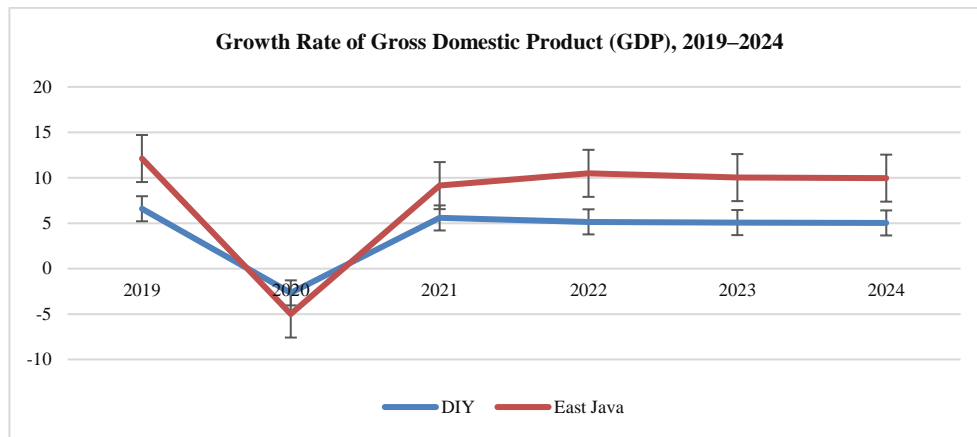


Figure 2. Growth Rate of Gross Domestic Product (GDP)
Source: Central Statistics Agency 2024

Figure 2 above shows that the economic growth rate in Yogyakarta reached around 5.07%, while East Java was 4.95%, which indicates that the two regions have relatively stable economic performance. This economic growth can have positive implications for increasing PAD and improving the financial performance of local governments. Revealing Br. Ginting et al., (2024) that the large size has contributed to government operational activities accompanied by an increase in regional fiscal performance. The larger the size of the local government, the greater the capacity it has to support the implementation of government operational activities. The larger size of local governments tends to increase capacity to carry out operational activities and government administration optimally. On the other hand, the relatively small size limits the implementation of operations due to low fiscal capacity, especially due to limited PAD. The Special Region of Yogyakarta (DIY) is one of the Regional Governments that strives to optimize good regional authorization rights. DIY through the development of (Tandiseru & Weight, 2023) *smart cities* has received appreciation in the Smart Province 2024 program. Another example of a Regional Government that also shows good performance in the implementation of an electronic-based government system (*e-government*) is East Java Province. East Java is transforming the administration of government to improve efficiency, transparency, and quality of public services. This award was strengthened by the achievement of the Digital Government Award 2023 from the Ministry of PANRB in the category of implementing SPBE services in central and regional government agencies that transmit the development of digital-based governance in the aforementioned regions. (Andayani et al., 2024), Government digitalization has the potential to increase the effectiveness of regional financial management through improving information systems, transparency, and strengthening supervisory mechanisms. This is in line with findings that the use of technology in the public sector can improve the transparency and efficiency of financial management. However, these relationships are not always direct, as the success of digitalization is highly dependent on organizational capacity and the quality of its implementation (Ardelia et al., 2022).

Local governments are required to be creative and innovative in optimizing their potential and measuring performance in a sustainable manner as part of efforts to realize more effective and accountable regional financial management. In line with this, the optimization of regional potential is related to the economic condition of the region. This is reflected in the value of the Gross Regional Domestic Product (GDP) as an indicator of regional economic activity, which describes the ability of a region to generate added value from various economic sectors (Tandiseru & Weight, 2023)

PAD optimization is an important indicator in assessing the financial performance of local governments, in carrying out their functions and authorities, local governments need to be able to identify potential and recognize the various resources they (Natalia Padang et al., 2023) have (Ardelia et al., 2022). These efforts are reflected in the ability of local governments to explore various financial sources to meet the needs of government financing and regional development. The higher the economic activity that encourages an increase in PAD sourced from regional taxes and levies, the better the financial performance of local governments. The effectiveness ratio reflects the ability of local governments to realize revenue according to the target set based on real potential. The effectiveness ratio is measured by comparing the realization to the APBD target, where a value above 100% indicates high effectiveness, while below 100% indicates that the utilization of potential revenue is not optimal. However, the high effectiveness does not necessarily reflect the quality of financial management, as it can be influenced by low target setting. The consistency and success of the Regional Government became the basis for the choice of the Special Region of Yogyakarta and East Java as the object of this research. (Mustafa et al., 2009) (Cheryll et al., 2025) (Mustafa et al., 2009)

Based on the theoretical explanations and background described above and the diverse empirical findings on measuring the financial performance of local governments using the variables of local government size, Own Source Revenue (PAD), and effectiveness ratios, there is no consistent empirical agreement in explaining the relationship between each variable. This is the basis for the importance of further research to re-examine the influence of local government size, Own Source Revenue (PAD), and the ratio of effectiveness to the performance of local governments on the selected research object.

Stewardship Theory

Stewardship theory is used as the *grand theory* in this study. According to , stewardship describes a condition in which management is not oriented to personal interests, but rather prioritizes organizational goals. This theory emphasizes that managers as stewards have a tendency to act collectively in order to achieve optimal organizational performance, which is based on psychological and sociological perspectives. In the context of local government, stewardship theory emphasizes that regional financial managers act to prioritize the interests of the organization and the public over personal interests. The relevance of this theory in the research is reflected in the relationship between the size of local governments, Own Source Revenue (PAD), and the effectiveness ratio as an independent variable (X) that represents capacity, fiscal independence, and regional financial management ability. These three variables play a role in encouraging the improvement of local government financial performance as a dependent variable (Y). Thus, the more optimal the role of the local government as a steward, the better the financial performance will be produced. James H. et al., (1997) The relevance of stewardship theory in this study is reflected in the relationship between independent variables and the financial performance of local governments. First, the size of the local government (X1) proxied by the natural logarithm of total assets shows institutional capacity in managing public resources; The larger the size, the wider the ability of local governments to optimize assets, expand the tax base, and attract investment, so that it has a positive impact on financial performance. Second, Own Source Revenue (PAD) (X2) reflects the level of fiscal independence that shows the success of local governments in exploring local economic potential optimally, thereby reducing dependence on transfers from the central government. Third, the effectiveness ratio (X3) describes the ability of local governments to realize revenue targets that have been set as a form of accountable and results-oriented financial management. Thus, the stewardship theory provides the basis that the more optimal the role of local governments in managing capacity, increasing independent income, and achieving revenue targets, the better the regional financial performance (Y), which is reflected in the decrease in the level of fiscal dependence.

Local Government Size

Size is a quantitative value used to represent the magnitude or scale of an entity. In the context of local government, size reflects the large size of an area which can describe the capacity and complexity in its management. This concept is related to stewardship theory, where local governments are seen as stewards who are responsible for optimally managing resources and assets in the public interest. In this perspective, the government is not solely oriented to personal interests, but seeks to maximize organizational performance to achieve community welfare. The measurement of the size of the local government is generally carried out through several indicators, such as total assets, the number of population, and the total income owned by the area (Tandiseru & Weight, 2023).

Own Source Revenue

According to the region's original revenue (Nordawan, 2007), it is regional income sourced from the region itself. Included in this type of regional revenue are regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate PAD. Each region has potential resources that can be used to generate income to support economic activities and government administration. Income sourced from the region's potential is known as Regional Original Income (Mustafa and al., 2009).

Effectiveness

Mahmudi, (2010), Defines effectiveness as the relationship between the output produced and the goal or objectives to be achieved. An activity is said to be effective if its implementation is able to achieve the final goal of the policy that has been set. Thus, the higher the level of achievement of output against the specified target, the more effective the performance of an organization or program. The greater the output produced in support of the achievement of these goals, the higher the level of effectiveness. Thus, effectiveness reflects the extent to which an organizational unit is able to optimize its performance in achieving the planned goals.

Effectiveness Ratio

Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 19 of 2020 concerning the Measurement of Regional Financial Management Index, (2020) (IPKD) is an evaluation instrument used by the Ministry of Home Affairs to assess the quality of regional financial management comprehensively. This regulation emphasizes that the financial performance of local governments is not only measured by the amount of budget owned, but also by the ability to realize revenue plans effectively and accountably in accordance with the targets set in the APBD. In this framework, the effectiveness of regional financial management is defined as the level of success of local governments in achieving the planned revenue targets. The effectiveness ratio is used as an indicator to measure the comparison between revenue realization and preset targets. This ratio reflects the quality of regional financial performance, especially in the aspects of budget planning and implementation. The higher the level of realization of the target, the more effective the region's financial performance (Mustafa and et al., 2009).

Financial Performance of Local Governments

According to regional financial performance, it reflects the government's ability to manage resources effectively and efficiently to achieve development goals. Thus, the quality of financial performance not only reflects the results of budget management, but also the institutional capacity of local governments in carrying out public service functions optimally. The financial performance of local governments is a reflection of a region's ability to manage

financial resources effectively and efficiently to support the implementation of government, public services, and regional development (Mahmudi, 2016) (Ardelia and al., 2022). Optimal financial performance not only reflects the success of budget management, but also indicates the level of fiscal independence of an area from dependence on central government transfers.(Putri & Ratnawati, 2023).

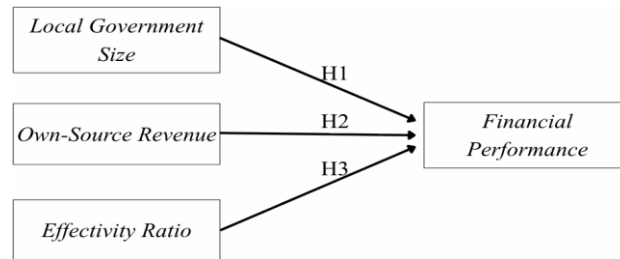


Figure 3. Conceptual Framework
Source: Data Processed (2026)

Based on the explanation of the theory and the findings of previous research, the hypothesis between the variables in this study can be formulated as follows: 1) The size of the Regional Government affects the Financial Performance of the Regional Government; 2) The Original Regional Revenue affects the Financial Performance of the Regional Government; 3) The Effectiveness Ratio affects the Financial Performance of the Regional Government.

METHOD

This study aims to analyze the influence of local government size, Own Source Revenue (PAD), and effectiveness ratio on local government financial performance. The local government size variable is measured using the natural logarithm of total assets (Ln total assets) because total assets reflect the capacity of resources, operational capabilities, and the level of ability of local governments to carry out government activities and public services. The larger the total assets owned, the greater the ability of local governments to support optimal regional financial management. Furthermore, Own Source Revenue (PAD) is used as a research variable because PAD reflects the ability of local governments to explore and optimize local economic potential as a source of independent income. The high level of PAD indicates the increasing level of fiscal independence of local governments in financing government activities and regional development without great dependence on the central government (Ratnasari & Meirini, 2022) (Putri & Ratnawati, 2023). Meanwhile, the effectiveness ratio is used to measure the ability of local governments to realize the PAD revenue target that has been set in the APBD. This ratio reflects the effectiveness of regional revenue management because the higher the level of effectiveness, the better the ability of local governments to achieve the planned revenue targets (Cheryll et al., 2025; Ardelia et al., 2022), (Yusuf & Suryaningrum, 2022), (Tandiseru & Pesudo, 2023).

Research that uses numbers in the form of data is a quantitative research. It involves studying the sample population through statistical calculations using test equipment. The quantitative approach was chosen because this study analyzed data in the form of numbers to test pre-formulated hypotheses. Secondary data was collected through existing documentation and sources. The data for this study comes from the Financial Statements of the Regional Government of the Special Region of Yogyakarta (DIY) and East Java for the 2019-2024 period. The report was obtained through the official website of the Audit Board of the Republic of Indonesia aka BPK RI in (Barella et al., 2024).

In addition, this research is supported by various articles, journals and books found on the internet. The total population in this study is districts in the Special Region of Yogyakarta (DIY) and East Java, each as many as 5 districts in Yogyakarta and 38 districts in East Java.

This study uses linear regression analysis to test the influence of independent variables on dependent variables. Before the regression test, a classical assumption test was carried out which included normality, multicollinearity, heteroscedasticity, and autocorrelation to ensure that the model met the Gauss–Markov theorem assumptions so that the OLS estimator is BLUE (Best Linear Unbiased Estimator). In the data processing stage, outlier tests are carried out to maintain the quality of data and the accuracy of model estimation. Based on , outliers are observations with extreme values that can affect the results of the analysis. Detection was carried out using casewise diagnostics (standardized residual values beyond ± 3) and boxplots based on the Interquartile Range (IQR), namely values outside the limits of $Q1 - 1.5 \times IQR$ and $Q3 + 1.5 \times IQR$. Data indicated as outliers are then evaluated to determine their feasibility, so that the model meets statistical assumptions and produces more accurate estimates (Ghozali, 2006).

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

Y = Financial Performance of Local Governments

*X*₁ = Local Government Size

*X*₂ = PAD

*X*₃ = Effectiveness Ratio

α = constant

β = regression coefficient

ε = error term

Table 1. Variable Operations and Measurement

Variable	Measurement	Source
<i>Local Government Size</i>	In terms of total assets INTERPRETATION: The larger the total assets of the local government, the greater the capacity of the local government's resources and operational capabilities in supporting optimal regional financial management.	(Yusuf & Suryaningrum, 2022) (Tandiseru & Weight, 2023)
<i>Own-Source Revenue</i>	Regional Taxes + Regional Levies + Wealth Management Results Separated Areas + Other PAD INTERPRETATION: The higher the PAD, the higher the ability of local governments to explore local economic potential and show the level of regional fiscal independence.	(Ratnasari & Meirini, 2022) (Putri & Ratnawati, 2023)
<i>Effectiveness Ratio</i>	$\frac{\text{Realisasi Penerimaan PAD}}{\text{Target Penerimaan PAD}} \times 100\%$ INTERPRETATION: The higher the effectiveness ratio, the better the ability of local governments to realize the PAD revenue target that has been set.	(Cheryll et al., 2025) (Mustafa et al., 2009)
<i>Financial Performance</i>	$\frac{\text{Pendapatan Transfer}}{\text{Total Pendapatan Daerah}} \times 100\%$ INTERPRETATION: The lower the level of dependence on transfer revenue, the better the financial performance of local governments as it shows higher fiscal independence.	(Ardelia et al., 2022) (Mahmudi, 2016)

Source: Data processed (2026)

RESULTS AND DISCUSSION

Results

Descriptive Statistics Test

Based on the results of descriptive analysis with a sample of 177 data, the SIZE variable has a minimum value of 281,551.00, a maximum value of 305,188.00, an average value of 289,584,452, and a standard deviation of 4,108.08592. The PAD variable has a minimum value of 256,048.00, a maximum value of 275,856.00, an average value of 265,565.497, and a standard deviation of 4,913.38442. The EFS variable has a minimum value of 1,028.00, a maximum value of 81,776.00, an average value of 10,938.0565, and a standard deviation of 5,530.98795. Meanwhile, the FP variable has a minimum value of 7,289.00, a maximum value of 8,876.00, an average value of 8,191.6271, and a standard deviation of 385.75884.

Table 2. Descriptive Statistical Test Results

	N	Minimum	Maximum	Red	Std. Deviation
SIZE	177	281.551,00	305.188,00	289.584,452	4.108,08592
PAD	177	256.048,00	275.856,00	265.565,497	4.913,38442
EFS	177	1028,00	81.776,00	10.938,0565	5.530,98795
FP	177	7289,00	8.876,00	8.191,6271	385,75884
Valid N (listwise)	177				

Normality Test

Based on the results of the normality test, it can be seen that the value of Asymp. Sig. (2-tailed) is 0.200 which means that the residue is normally distributed (sig > 0.05). The null (H₀) hypothesis that the normally distributed residual cannot be rejected at the level of significance used.

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test	
N	177
Test Statistic	.061
Asymp. Sig. (2-tailed) ^c	.200d

Multicollinearity Test

Based on the results of the multicollinearity test, it is known that the results of the multicollinearity test on the SIZE variable have a tolerance value of 0.518 and a VIF value of 1.931, then the PAD variable has a tolerance value of 0.510 and a VIF value of 1.959, then the EFS variable has a tolerance value of 0.976 and a VIF value of 1.024. Based on these results, it is known that all independent variables, namely SIZE, PAD, and Effectiveness ratio, have a tolerance value greater than 0.10 and a VIF value of less than 10, so it is known that in this regression model there is no problem of multicollinearity between independent variables, so this regression equation is considered feasible for further analysis.

Table 4. Multicollinearity Test Results

Models	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIVID
1 (Constant)	15905.406	1590.334			
SIZE	.032	.008	.340	.518	1.931
PAD	-.064	.006	-.810	.510	1.959
EFS	-.007	.004	-.103	.976	1.024

Source: Data processed (2026)

Heteroscedasticity Test

Based on the results of the heteroscedasticity test, the significance value for each variable was shown, namely SIZE of 0.116, PAD of 0.583, and EFS of 0.264. Based on these

values, it can be seen that each variable has a significance value greater than 0.05, so it can be concluded that in this regression model there is no heteroscedasticity.

Table 5. Heteroscedasticity Test Results

Models	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	sig
1 (Constant)	1688.355	892.116		1893	.060
SIZE	-.007	.004	-.165	-1.579	.116
PAD	.002	.004	.058	.551	.583
EFS	-.003	.002	-.085	-1.120	.264

Source: Data processed (2026)

Autocorrelation Test

Based on the results of the autocorrelation test using *the runs test*, an Asymp value was obtained. Sig (2-tailed) is 0.258. This value is greater than the significance level of 0.05, so it can be concluded that the residual data is random and there is no autocorrelation in the regression model.

Table 6. Autocorrelation Test Results

Runs Test

	Unstandardized Residual
Test Value ^a	36.52704
Cases < Test Value	88
Cases >= Test Value	89
Total Cases	177
Number of Runs	82
Z	-1.130
Asymp. Sig. (2-tailed)	.258

a. Median

Source: Data processed (2026)

T test

Based on the results of the t-test, the probability value of SIZE was 0.000, PAD was 0.000, and EFS was 0.082. The probability value of SIZE and PAD is smaller than the significance level of 0.05, so that the two variables have a partial significant effect on the financial performance of local governments. Meanwhile, the probability value of EFS is greater than 0.05, so that the EFS variable does not have a partial significant effect on the financial performance of local governments.

Table 7. Test Results T

Models	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	sig
1 (Constant)	15905.406	1590.334		10.001	.000
SIZE	.032	.008	.340	4.217	.000
PAD	-.064	.006	-.810	-9.971	.000
EFS	-.007	.004	-.103	-1.750	.082

Source: Data processed (2026)

Test F

Based on the F test, it is known that the sig value produced from the variables SIZE, PAD, and EFS is 0.000, where the value is smaller than 0.05 (0.000 < 0.05). It is concluded that the variables SIZE, PAD, EFS have a simultaneous influence on the Financial Performance of the Regional Government.

Table 8. F Test Results

Models	Sum of Squares	df	Mean Square	F	Sig.
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1	Regression	10950167.2	3	3650055.73	41.433	.000b
	Residual	15240372.2	173	88094.637		
	Total	26190539.4	176			

Source: Data processed (2026)

Based on the Coefficient of Determination Test, it is known that the R value is 0.647, which indicates a fairly strong relationship between the variables of local government size (SIZE), Own Source Revenue (PAD), and effectiveness ratio (EFS) together on the financial performance of local governments. The R-Square value of 0.418 shows that the three independent variables are simultaneously able to explain 41.8 percent of the variation in the financial performance of local governments, while the remaining 58.2 percent is explained by other variables that are not included in this research model. The Adjusted R Square value of 0.408 confirms that the model's explanatory ability remains quite substantial even after considering the number of variables and sample sizes used.

Coefficient of Determination Test (R²)

Table 9. Determination Coefficient Test Results

Model Summary				
Models	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.647a	.481	.408	296.80741

Source: Data processed (2026)

Discussion

The Size of the Regional Government Affects the Financial Performance of the Regional Government

The results of the data testing in this study show that the significant value of the SIZE variable is 0.000 where the value is less than 0.05, which explains that SIZE affects the financial performance of local governments, **H1 is supported**. This is in line with the stewardship theory which states that along with the increasing number of assets owned by the region, as a steward, the government will provide maximum service to the public through improving financial performance. This shows that the greater the number of assets owned by the local government, the higher the potential for improving regional financial performance. The size of assets reflects the ability of local governments to manage resources effectively and optimally. In addition, the assets owned can also describe the level of prosperity of an area (Adinata & Efendi, 2026).

The total assets owned by the regions can support the smooth operational activities of the local government in carrying out its obligation to provide services to the community. These assets can be used to support the construction of various public facilities, such as bridges, roads, and public transportation facilities. Adequate asset support helps local governments have greater capacity to realize work programs and improve the quality of public services to the community. Well-implemented public services reflect optimal local government performance, so it also shows good regional financial performance. The results of this study are supported by the results of research that has been conducted, which states that the size of local governments has a positive effect on the financial performance of local governments (Aulia, 2020), (Budiharjo et al (2025), Frety Suci Tiara Hati et al 2025).

Own Source Revenue Affects the Financial Performance of Local Governments

The results of this study show that the significant value of the PAD variable is 0.000 where the value is less than 0.05, which explains that PAD affects the financial performance

of local governments, **H2 is supported**. The results of this study support the stewardship theory which explains that the government as a public institution has the responsibility to provide the best service to the community and to be accountable for the management carried out to the public. The government will continue to strive to optimize the administration of government to ensure the welfare of the community. Safitri et al., (2022), One form of this responsibility is reflected in the preparation of the PAD budget which is carried out precisely, realistically, and in accordance with regional potential. Therefore, if there is an inaccuracy in PAD budget planning, then an increase in the budget target can be followed by a decrease in the financial performance of local governments. PAD budgets that are set too high tend to reflect the practice of (Flowerita et al., 2026) *overestimation*, so that when the target is not achieved, regional financial performance will decrease. In this context, financial performance is not only influenced by the size of the budget targets set, but also by the accuracy and realism of the budget planning. The results of this study are supported by the results of research that has been conducted Angraini & Hidayat (2023), Fatimah Az Zahrah et al (2023) which states that PAD has a negative effect on the financial performance of local governments.

Effectiveness Ratio Affects the Financial Performance of Local Governments

The results of the processing show that the significant value of the EFS variable is 0.082 which explains that the value is greater than 0.05, then it can be concluded that EFS has no effect on the financial performance of the local government, so **H3 is not supported**. The results of the analysis show that the PAD Effectiveness Ratio does not have a significant influence on regional financial performance. Theoretically, the effectiveness of PAD is expected to be able to improve financial performance, but the results of this study show that the achievement of the PAD target is not strong enough to affect overall financial performance. The high PAD effectiveness ratio does not necessarily reflect the amount of contribution to regional revenue, especially if the PAD target is set too low or the amount of PAD obtained is still relatively small. In addition, the high dependence of regions on transfer funds from the central government has also caused PAD's contribution to financial performance to be less than optimal (Santoso, 2025).

The results of this study are in line with the statement that the effectiveness of PAD does not have a significant effect on regional financial performance because increasing the effectiveness of PAD is not always accompanied by spending efficiency or improvement in regional financial management. However, the results of this study are different from those that found that the effectiveness of PAD has a significant negative effect on regional financial performance, thus showing that increasing the effectiveness of PAD is not necessarily able to improve financial performance optimally. The difference in the results of the study shows that the effectiveness of PAD does not only need to be seen from the level of target achievement, but must also be supported by strategies to increase regional fiscal capacity, setting realistic and progressive targets, and accountable and efficient regional financial management. (Sihotang et al., 2025), (Rahil et al., 2024).

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, this study concludes **that first**, the size of local governments has a positive and significant influence on the financial performance of local governments. The findings show that the larger the total assets owned by local governments, the greater the government's capacity to carry out public service functions and manage regional finances more optimally. **Second**, Own Source Revenue (PAD) has also been proven to have a positive and significant effect on the financial performance of local governments. This reflects that the ability of the regions to optimize the region's original sources of revenue is able to increase fiscal independence and support the creation of better regional financial management. **Third**, the effectiveness ratio does not show

a significant influence on the financial performance of local governments. These results indicate that the high level of effectiveness of PAD is not necessarily able to reflect the overall condition of regional financial performance. This condition can be caused by the determination of PAD targets that are not fully realistic or not in accordance with the real potential of the region, so that the achievement of effectiveness has not been the main measure in determining the quality of the financial performance of local governments.

Simultaneous testing showed that local government size, PAD, and effectiveness ratio had an influence on the financial performance of district/city local governments in the Special Region of Yogyakarta and East Java during the 2019–2024 period. These findings show that the improvement of regional financial performance is influenced by the ability of local governments to manage assets, increase regional revenues independently, and implement transparent, effective, and sustainable financial management. The limitation of this research is in the Regional Government which is the observation of only 2 (two) provinces, so it is hoped that the researcher will continue to expand the object of observation. The suggestion for the researcher is to add variables such as transfer funds, capital expenditures, economic growth, level of fiscal independence, and quality of governance and expand the observation period and use more diverse analysis methods, such as dynamic panel data models or non-linear approaches, in order to provide more in-depth results on the factors that affect the financial performance of local governments.

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