

## A Comparative Analysis of the Financial Performance Based on Financial Ratios

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### Abstract

This study compares the financial performance of the governments of Malang Regency, Malang City, and Batu City during 2020–2024 using seven indicators: PAD effectiveness, expenditure-to-PAD efficiency, dependence on central government transfers, capital expenditure ratio, operational expenditure ratio, and revenue and expenditure growth. Employing a quantitative descriptive-comparative approach, the study analyzes budget realization reports using descriptive statistics, normality tests, and one-way ANOVA. The findings show that all three local governments achieved relatively similar and effective PAD performance, with realization rates ranging from 91% to 101%. However, expenditure-to-PAD ratios remained high (341%–545%), indicating limited fiscal capacity. Dependence on transfer funds was also substantial, reaching 1.78–3.67 times PAD, although Malang City demonstrated comparatively greater fiscal independence. Regional budgets allocated 80%–96% to operational expenditure, while capital expenditure remained low at 11%–14%. Revenue and expenditure growth were unstable across regions. These findings emphasize the need to strengthen fiscal autonomy through PAD optimization and budget restructuring toward more productive capital expenditure.

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## Introduction

Regional financial governance continues to face multifaceted fiscal challenges. Many local governments have yet to maximize their own-source revenue (PAD) potential, resulting in persistently high fiscal dependency on central government transfer allocations (Subekan & Azwar, 2024; Dalisawintri et al., 2025). Furthermore, the dominance of operational expenditure frequently constrains the fiscal space that should otherwise be directed toward productive capital spending (Widodo, 2020; Asiah, 2024). The chronically low budget absorption rate further undermines the attainment of infrastructure development and public service delivery targets (Krisdiyawanawati et al., 2020).

This fiscal imbalance is concretely reflected in the financial conditions of the Malang Raya region, comprising Batu City, Malang City, and Malang Regency, over the 2020–2024 period. Based on regional budget (APBD) realization data across the three jurisdictions, own-source revenue performance has remained volatile and has frequently fallen short of budgetary targets, indicating that revenue intensification and extensification efforts have yet to be optimized. Consequently, these three regions exhibit a substantial and consistent reliance on central government transfer funds, which serve as the primary pillar of their APBD fiscal structures. On the expenditure side, capital spending realization has remained persistently low and has consistently underperformed relative to targets. Conversely, the trend in operational expenditure has escalated sharply on an annual basis. The dominance of recurrent spending obligations erodes the proportion of productive expenditure, thereby posing a significant risk to the pace of regional infrastructure development.

The assessment of local government financial performance in this study is grounded in seven financial ratio indicators, organized across three principal dimensions: revenue performance and fiscal autonomy, regional expenditure structure, and growth analysis. Within the revenue performance and fiscal autonomy dimension, measurement is conducted through three indicators: the PAD Effectiveness Ratio, a metric reflecting a region's competency in achieving own-source revenue in accordance with budgetary targets; the Efficiency Ratio, proxied by the ratio of total regional expenditure to own-source revenue, which measures the capacity of PAD to sustain regional spending requirements, whereby a lower percentage is indicative of a comparatively more efficient fiscal condition; and the Transfer Dependency Ratio, which represents the degree of a region's fiscal vulnerability by examining the extent to which central government transfer injections compare to the total own-source revenue generated autonomously.

The expenditure posture is subsequently evaluated through the regional expenditure structure dimension, comprising two indicators: the Activity Ratio, which measures the percentage of capital expenditure allocation relative to total expenditure as a proxy for the government's long-term investment commitment; and the Harmony Ratio, which assesses the proportion of operational (recurrent) expenditure relative to total regional spending. Finally, the year-on-year financial dynamics are evaluated through the growth analysis dimension, which encompasses the Revenue Growth Ratio to examine the trend in a region's capacity to sustain or augment its annual revenue streams, as well as the Expenditure Growth Ratio, which measures the trend of expansion or efficiency in local government expenditure allocation over the observation period.

The seven financial ratio indicators employed in this study possess an integrated causal relationship that collectively shapes the overall financial condition of regional entities. The proportion of Own-Source Revenue (PAD) is evaluated to examine the extent to which local governments mobilize PAD effectively and minimize collection costs (PAD Effectiveness and Efficiency Ratios), which in turn directly reduces fiscal dependency on central government transfer funds (Dependency Ratio). When a region attains strong fiscal autonomy, its fiscal space expands accordingly, affording local governments greater discretion in structuring their expenditure. This enables more optimal budget allocation toward public infrastructure investment (Activity Ratio) while simultaneously curtailing the dominance of routine bureaucratic

expenditure (Harmony Ratio). The dynamics of improvements in fiscal autonomy and expenditure efficiency are subsequently evaluated on a year-on-year basis through the continuity of their trajectories (Revenue and Expenditure Growth Ratios).

According to Jensen & Meckling (1976), agency theory defines an agency relationship as a contract in which one or more parties (the principal) delegate decision-making authority to another party (the agent) to perform a service or undertake a task on their behalf. When applied to the public sector, this theoretical framework explicates the contractual dynamics between the principal, comprising the central government, and the general public who confer a mandate of authority upon the agent, namely the local government. This separation of authority in public financial management is inherently susceptible to agency problems arising from divergent interests and information asymmetry. Accordingly, local governments are obligated to render transparent accountability over resource management (Zubaidah & Nugraeni, 2023) and to present high-quality financial information to external stakeholders (Purba & Purba, 2023). In the context of this study, Agency Theory serves as the theoretical justification that performance measurement through financial ratio analysis, encompassing effectiveness, efficiency, dependency, activity, and harmony, is indispensable for assessing the degree to which local governments fulfill their public mandate and uphold the trust of the principal.

Budgeting Theory is also applied in this study. A budget constitutes a comprehensive plan expressed in financial terms, representing the projected operational activities and resource utilization of an organization for a future period (Sukarno, 2002). Within public sector organizations, the effective formulation and execution of the regional budget (APBD) demands clear delineation of authority, consistent budget cycles, and periodic reporting and evaluation systems to ensure the efficient use of public funds (Umarella et al., 2019). The APBD serves not merely as a projection of figures, but functions as both a control instrument and a benchmark for performance evaluation. Grounded in this theory, sound governmental management can be assessed through a comparative analysis of budgetary targets versus actual realization, empirically reflected in a region's capacity to optimize revenue mobilization and maintain a balanced expenditure structure in support of development objectives.

Taken together, the interrelationships among these variables constitute a holistic measurement framework for evaluating the success of local governments (agents) in implementing sound budgetary governance (Budgeting Theory) and fulfilling their public accountability obligations to both the community and the central government (principal).

Although the body of literature on local government financial performance is considerable, the majority of prior studies have been confined to single-case analyses employing a limited set of ratio indicators (Oktaviani & Sugiarto, 2025; Hidayatullah et al., 2024; Yuliani & Purnamawati, 2025). Moreover, comparative studies examining financial performance within an integrated economic region during the post-COVID-19 recovery phase remain notably scarce. In response to this identified research gap, the present study conducts a comparative financial performance analysis across three jurisdictions within the Malang Raya region, which share distinct yet economically integrated base characteristics.

The three jurisdictions collectively form an agglomeration zone, wherein their economic activities are mutually interdependent and complementary. For instance, the tourism sector in Batu City and the education and services sector in Malang City are supported by agricultural and industrial raw material supplies originating from Malang Regency. As such, the three regions constitute a single, integrated economic ecosystem that cannot be assessed in isolation.

This study was conducted with the overarching objective of comprehensively comparing the financial performance of local governments in Batu City, Malang City, and Malang Regency over the 2020–2024 period. The comparison is operationalized through seven simultaneous indicators: the PAD effectiveness ratio, PAD efficiency ratio, central government transfer dependency ratio, capital expenditure activity ratio, operational expenditure harmony ratio, as well as regional revenue growth and expenditure growth ratios.

## Research Methods

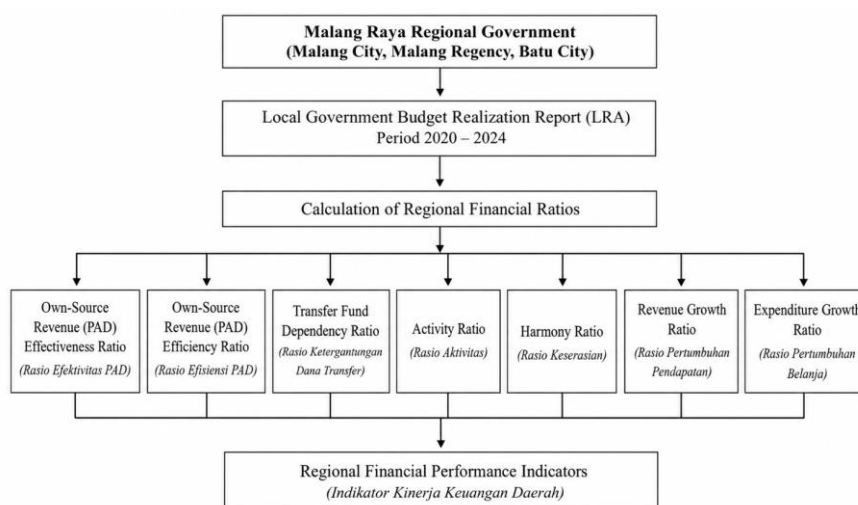
This study applies a quantitative research method that is simultaneously descriptive and comparative in nature. The quantitative approach is executed through statistical analysis of a set of numerical data collected from local government financial reports. The descriptive approach is employed to depict and explain the processed results of financial ratios that represent the financial performance of local governments. Specifically, this study provides a measurable description of the financial performance of the Malang Raya Regional Governments over the 2020–2024 period. The comparative approach is utilized to benchmark financial performance across local governments within the Malang Raya region based on selected financial ratios, without examining causal relationships between variables. The following figure illustrates the research framework employed in this study.

The data employed in this study are time-series in nature, as the research observes and analyzes the Budget Realization Reports of the Malang Raya Regional Governments spanning the 2020–2024 period. The data utilized consist of local government financial data sourced from the Budget Realization Report documents of each regional entity within the 2020–2024 observation window. The entire dataset is designated as the research population, examined through observation of local government financial reports within the Malang Raya region for the 2020–2024 period. The research dataset comprises 15 observations derived from three regional governments over five years of observation.

The financial data in this study encompass four regional financial elements: Own-Source Revenue, central government transfer funds, operational expenditure, and capital expenditure. All data references were extracted from budgetary target documents and their corresponding realization figures within the Malang Raya region for the 2020–2024 observation period.

The secondary data in this study are sourced from budget realization reports for the 2020–2024 observation period, published by the Regional Finance and Asset Agency (BKAD) and the Central Statistics Agency of Malang City, Malang Regency, and Batu City, accessible through their respective official websites. Data for Malang City were obtained from <https://ppid.malangkota.go.id/>, data for Malang Regency from <https://ppid.malangkab.go.id/>, and data for Batu City from the Budget Realization Report published by the BKAD of Batu City.

Data analysis in this study employs descriptive statistical methods and comparative statistical methods, with the assistance of SPSS version 26. The research data were analyzed through descriptive statistics, data normality testing, homogeneity testing, and comparative statistical testing using One-Way ANOVA.



**Figure 1 Research Framework**

## Result

This study employs seven regional financial ratios, comprising: the PAD effectiveness ratio, PAD efficiency ratio, transfer dependency to PAD ratio, capital expenditure activity ratio, operational expenditure harmony ratio, revenue growth ratio, and expenditure growth ratio. Based on the results of statistical data processing, the financial performance description of the sampled local governments encompasses minimum and maximum values, as well as the mean and standard deviation levels over the observation period.

### **Descriptive Statistical Analysis Results for Malang Raya PAD**

Revenue performance is measured through two primary indicators. First, the effectiveness ratio, which reflects the capacity of local governments to realize Own-Source Revenue (PAD) in accordance with established targets. Malang Regency and Malang City recorded mean values of 0.91 (91%) and 0.92 (92%), respectively. Based on the established criteria, the performance of both regions is classified as "Sufficiently Effective" (within the 90–99% range). Meanwhile, Batu City recorded the strongest performance with a mean of 1.01 (101%), placing it in the "Highly Effective" category (>100%).

Second, the efficiency ratio, proxied through the regional expenditure burden to PAD ratio which measures the comparison between regional expenditure realization and own-source revenue realization. The results indicate that all three regions recorded relatively high mean efficiency ratio values: Malang Regency at 545%, Malang City at 341%, and Batu City at 543%. Referencing the criteria in Mahmudi (2019), figures substantially exceeding 100% indicate that PAD capacity has yet to adequately sustain regional expenditure requirements across the entire Malang Raya area, classifying all three as "Inefficient."

### **Descriptive Analysis Results for Central Government Transfer Funds in the Malang Raya Region**

The descriptive analysis of central government transfer funds in the Malang Raya region reveals the substantial contribution of transfer funds relative to total own-source revenue. Based on the calculations, the average transfer dependency ratio in Malang Regency reached 3.54 (354%), Malang City recorded 1.78 (178%), and Batu City posted the highest figure at 3.67 (367%), indicating transfer receipts that are proportionally far greater than each region's own-source revenue. Referencing Mahmudi (2019), all regions within Malang Raya exhibit dependency figures well above the 50% threshold, placing them uniformly in the "Very High" budgetary dependency category relative to the central government.

### **Descriptive Statistical Analysis Results for Regional Expenditure in Malang Raya**

The regional expenditure structure is evaluated through two primary proportions. For the first indicator, the activity ratio is used to assess the percentage of capital expenditure relative to total regional expenditure. The analysis reveals that the average share of capital expenditure in Malang Regency and Malang City stood at 14% each, while Batu City recorded 11%. Based on Mahmudi's (2019) assessment criteria, capital expenditure allocations in all three regions, ranging between 10–40%, are classified as "Adequately Good."

The second indicator, the harmony ratio, measures the proportion of operational expenditure relative to total regional expenditure. Malang Regency recorded a mean harmony ratio of 80%, which sits at the upper boundary of the "Adequately Good" category (40–80%). Conversely, Malang City and Batu City recorded means of 96% and 93%, respectively. Referencing Mahmudi's (2019) threshold criteria of 80–100%, the operational expenditure structure in both cities is categorized as "Poor," as it reflects an excessively dominant share of operational spending within the overall APBD posture.

### **Descriptive Analysis Results for Growth Analysis**

Regarding the revenue growth ratio, Malang Regency recorded a positive average growth of 9%; however, as this remains within the 0–25% range, Mahmudi (2019) classifies its performance as

"Poor." A more serious condition is observed in Malang City and Batu City, both of which recorded a negative average growth of -3%, indicating a contraction in regional revenue over the observation period. Consequently, the growth performance of both cities not only falls short but reflects an actual decline. The wide standard deviations for both cities (0.42 and 0.48) further underscore the high volatility of regional revenue during the observation period.

Regarding the expenditure growth ratio, Malang Regency and Malang City both recorded an average growth of 6%, while Batu City registered 4%. Based on Mahmudi's (2019) assessment criteria, all average growth rates falling within the 0–25% range indicate that the pace of expenditure expansion across all three local governments remains in the "Poor" category.

### Normality Test Results

Based on the Shapiro-Wilk test results presented in Table 1, all ratios yielded significance values (Sig.) > 0.05, confirming that the data satisfy the normality assumption.

**Table 1. Shapiro-Wilk Normality Test Results**

Ratio	Region	Sig.	Remarks
Effectiveness Ratio	Malang Regency	0.229	Normally Distributed
	Malang City	0.582	Normally Distributed
	Batu City	0.365	Normally Distributed
Efficiency Ratio	Malang Regency	0.148	Normally Distributed
	Malang City	0.823	Normally Distributed
	Batu City	0.500	Normally Distributed
Dependency Ratio	Malang Regency	0.672	Normally Distributed
	Malang City	0.364	Normally Distributed
	Batu City	0.590	Normally Distributed
Activity Ratio	Malang Regency	0.275	Normally Distributed
	Malang City	0.482	Normally Distributed
	Batu City	0.828	Normally Distributed
Harmony Ratio	Malang Regency	0.777	Normally Distributed
	Malang City	0.741	Normally Distributed
	Batu City	0.262	Normally Distributed
Revenue Growth Ratio	Malang Regency	0.150	Normally Distributed
	Malang City	0.833	Normally Distributed
	Batu City	0.431	Normally Distributed
Expenditure Growth Ratio	Malang Regency	0.873	Normally Distributed
	Malang City	0.892	Normally Distributed
	Batu City	0.858	Normally Distributed

Source: Data processed by the researcher (2026)

The Shapiro-Wilk normality test results indicate that the significance values for all financial ratios in Malang Regency fall within the range of 0.148 to 0.873, Malang City within 0.364 to 0.892, and Batu City within 0.262 to 0.858. Since the significance values of all variables across the three regions consistently exceed the threshold of Sig. > 0.05, it can be concluded that all financial ratio models for Malang Regency, Malang City, and Batu City satisfy the normality assumption, with data confirmed to be normally distributed.

### Levene Homogeneity Test Results

The Levene homogeneity test was applied as an instrument to examine the equality (homogeneity) of variance in financial performance ratio data across the three local governments in Malang Raya. The homogeneity of variance test results (Levene statistic) are presented below.

**Table 2. Levene Homogeneity Test Results**

Ratio	Sig. (Based on Mean)	Remarks
Effectiveness Ratio	0.835	Homogeneous
Efficiency Ratio	0.393	Homogeneous
Dependency Ratio	0.133	Homogeneous
Activity Ratio	0.257	Homogeneous
Harmony Ratio	0.912	Homogeneous
Revenue Growth Ratio	0.621	Homogeneous
Expenditure Growth Ratio	0.889	Homogeneous

Source: Data processed by the researcher (2026)

The Levene homogeneity test results demonstrate that all ratios yield significance values  $> 0.05$ : effectiveness ratio (0.835), efficiency ratio (0.393), dependency ratio (0.133), activity ratio (0.257), harmony ratio (0.912), revenue growth ratio (0.621), and expenditure growth ratio (0.889). Accordingly, the variance across data groups is declared equal, or homogeneous.

### One-Way ANOVA Test Results

**Table 3. One-Way ANOVA Test Results**

Ratio	F	Sig.	Remarks
Effectiveness Ratio	1.096	0.365	Not Significant
Efficiency Ratio	14.230	0.001	Significant
Dependency Ratio	11.929	0.001	Significant
Activity Ratio	1.939	0.186	Not Significant
Harmony Ratio	32.955	0.000	Significant
Revenue Growth Ratio	0.921	0.424	Not Significant
Expenditure Growth Ratio	0.049	0.952	Not Significant

Source: Data processed by the researcher (2026)

Referring to the One-Way ANOVA output at a significance level of 5% (0.05), the research findings are fundamentally categorized into two primary classifications. The first group reveals statistically significant differences in financial performance (Sig.  $< 0.05$ ) among the examined regions, specifically for the efficiency ratio (Sig. 0.001), dependency ratio (Sig. 0.001), and harmony ratio (Sig. 0.000). These findings indicate that meaningful disparities exist in each region's capacity to minimize PAD collection costs, the level of fiscal autonomy in sustaining the APBD without central transfer funds, and in the patterns of operational expenditure allocation relative to total spending.

In contrast, the second category of indicators yields no statistically significant differences (Sig.  $> 0.05$ ). This is evidenced by probability values for the effectiveness ratio at 0.365, the activity ratio at 0.186, the revenue growth ratio at 0.424, and the expenditure growth ratio at 0.952, all exceeding the standard threshold. This implies that financial performance across these four indicators tends to be relatively uniform across regions. In other words, the regions' capacity to realize PAD targets, determine capital expenditure allocation proportions, and sustain revenue and expenditure growth trajectories exhibits a comparatively consistent pattern with no pronounced differences throughout the observation period.

### Post Hoc Test Results

The Post Hoc analysis, employing both Tukey HSD and Bonferroni techniques, was conducted to specifically identify the location of mean differences between regions within Malang Raya for each financial indicator. The specific distribution of financial performance differences among regions can be mapped as follows. For both the efficiency ratio and the dependency ratio, a similar pattern of differences was identified: statistically significant performance gaps exist between Malang Regency and Malang City, as well as between Malang City and Batu City (Sig.  $< 0.05$ ). However, no sufficiently pronounced difference was found between Batu City and Malang Regency on either

indicator. Conversely, the harmony ratio exhibits a distinct pattern. On this indicator, Malang Regency demonstrates highly significant performance differences when compared to both Malang City and Batu City (Sig. 0.000). On the other hand, no significant harmony ratio difference exists between Malang City and Batu City (Sig. > 0.05).

## Discussion

### **PAD Effectiveness and Efficiency Ratios in Local Governments of the Malang Raya Region**

The Own-Source Revenue (PAD) effectiveness ratio across the three autonomous regions of Malang Raya shows no statistically significant differences. The three government entities, Batu City, Malang City, and Malang Regency, demonstrate a relatively comparable capacity to realize their respective PAD targets. This uniformity of achievement stems from the fact that targets have been set realistically in alignment with local economic base potential. The fiscal existence of Batu City is fully sustained by hotel tax and restaurant tax revenues from the tourism sector; Malang City is driven by Land and Building Transfer Tax (BPHTB) and restaurant tax revenues generated by its expansive services, education, and trade ecosystem; while Malang Regency is predominantly supported by contributions from Street Lighting Tax (PPJ) and Non-Metallic Minerals and Rocks Tax (MBLB). Referencing Agency Theory, these achievements demonstrate that local governments, in their capacity as agents, have adequately fulfilled their mandate to the community and the central government (as principals) in securing revenue targets (Yuliani & Purnamawati, 2025).

Based on the Budget Realization Report (LRA), the largest PAD contributors in Batu City are Hotel Tax and Restaurant Tax, with cumulative realizations over the 2020–2024 period reaching IDR 164 billion for Hotel Tax and IDR 131 billion for Restaurant Tax. These achievements peaked in 2023 with Hotel Tax realization of IDR 41 billion and Restaurant Tax realization of IDR 33 billion, both consistently surpassing established targets.

The effectiveness performance of Malang City is driven by the services, trade, and property sectors. The LRA detail shows that the primary PAD contributors are Land and Building Transfer Tax (BPHTB) and Restaurant Tax, with cumulative realizations of IDR 750 billion for BPHTB and IDR 415 billion for Restaurant Tax, exhibiting a continuous upward trend and peaking at IDR 230 billion for BPHTB and IDR 17 billion for Restaurant Tax in 2024. Although Malang Regency's economic base differs from the urban areas, its PAD effectiveness remains stable owing to robust support from Street Lighting Tax (PPJ) and Non-Metallic Minerals and Rocks Tax (MBLB), which recorded cumulative realizations of IDR 483 billion for PPJ and IDR 3 billion for MBLB over the five-year observation period.

On the efficiency ratio indicator, measuring the comparison between regional expenditure realization and own-source revenue realization, highly significant performance differences are found across regions. Malang City descriptively records a substantially better efficiency level (lower ratio) compared to Malang Regency and Batu City. This achievement is driven by a centralized urban economic structure, digitalization of public services, and a mature administrative system. Malang City's economies of scale allow the local government to collect taxes optimally without inflating operational and bureaucratic costs, as the proportion of regional expenditure proves highly efficient relative to the revenue collected.

This efficiency disparity becomes more pronounced when examining the high expenditure burdens in the other two regions. Malang Regency exhibits suboptimal efficiency due to its vast administrative territory encompassing 33 sub-districts, which demands substantial field operational costs, infrastructure maintenance, and personnel expenditure. Meanwhile, Batu City, despite its strong tax collection effectiveness, remains heavily dependent on aggressive regional expenditure interventions to sustain its tourism facilities and growth trajectory.

Based on LRA data, total cumulative regional expenditure realization in Malang City reached IDR 11 trillion over the observation period, against a total cumulative own-source revenue of IDR 3 trillion. The high regional expenditure burden in Malang Regency reflects a poor efficiency ratio;

total regional expenditure realization absorbed up to IDR 20 trillion over the observation period against cumulative own-source revenue of IDR 3 trillion, entirely consistent with Malang Regency's vast administrative area (over 3,500 km<sup>2</sup>) comprising 33 sub-districts, where personnel expenditure, infrastructure maintenance, and field operational costs have expanded significantly (Nasri'ah et al., 2020).

Batu City exhibits a low efficiency level, with relatively large regional expenditure outlays by the government. LRA data show that total regional expenditure realization in Batu City reached IDR 5 trillion over the observation period, compared to cumulative own-source revenue of IDR 967 billion. This high expenditure burden indicates that the city government still requires aggressive budgetary interventions to support operational governance and sustain revenue momentum in the tourism sector.

These findings, consistent with Hidayatullah et al. (2024), affirm the relevance of Budgeting Theory, whereby cost control and budget collection allocation priorities have yet to be standardized across regions. Furthermore, from the perspective of Agency Theory, this variation in efficiency levels directly reflects disparities in the quality of agent (local government) performance in managing and conserving fiscal resources.

### **Transfer Fund Dependency Ratio in Malang Raya Local Governments**

A significant fiscal autonomy gap is evident within the Malang Raya region. Based on the central government transfer dependency ratio, Malang City demonstrably exhibits a far more advanced level of fiscal independence compared to Malang Regency and Batu City, both of which remain at a high level of dependency.

This pervasive dependency is highly susceptible to triggering agency problems as explicated by Agency Theory. Local governments (as agents) tend to lose the motivation to maximize PAD self-sufficiency, feeling secure with the supply of funds from the central government (principal). From the perspective of Budgeting Theory, this condition reveals a structural vulnerability in APBD planning. Regional fiscal capacity becomes inflexible due to heavy reliance on the timeliness and magnitude of central transfers, the allocation of which is frequently pre-determined (earmarked).

Malang City's robust fiscal independence is inseparable from its status as the agglomeration center of education, trade, and services in East Java. This tertiary economic structure provides the advantage of rapid economic circulation, enabling the local government to optimize PAD through consumption- and asset-based taxes such as restaurant tax, PBJT, and BPHTB. The high PAD yield is proportionally capable of offsetting the inflow of central transfer funds. As a result, Malang City possesses a far more expansive and dynamic fiscal space, enabling regional development financing without total dependence on central equalization funds.

Based on LRA data, the total cumulative transfer funds received by Malang City amounted to IDR 6 trillion, predominantly from the General Allocation Fund (DAU), with an average annual receipt of IDR 816 billion, peaking at IDR 873 billion in 2024. These transfer receipts are proportionally offset by Malang City's strong PAD capacity, with total cumulative own-source revenue reaching IDR 3 trillion, driven by consumption- and asset-based taxes with rapid economic turnover.

The high dependency ratios of Batu City and Malang Regency stem from the structural and geographical vulnerabilities specific to each region. Batu City's PAD is highly concentrated in the tourism sector, which has proven to be highly volatile, particularly when confronted with external shocks such as the COVID-19 pandemic. Sustaining transfer fund support becomes a rational strategy to secure routine operational expenditure amid such uncertainty. Conversely, Malang Regency's extreme dependency is driven by the imbalance between the substantial operational burden of servicing an administrative territory exceeding 3,500 km<sup>2</sup> and a constrained local tax base. The dominance of the agrarian sector in this region does not constitute a strategically taxable object under regional authority, rendering PAD potential structurally limited and necessitating massive General Allocation Fund (DAU) injections to close the expenditure deficit.

Based on LRA data, the total cumulative transfer funds supporting Batu City reached IDR 3 trillion over the observation period, predominantly from the DAU with an average of IDR 451 billion per year, peaking at IDR 462 billion in 2023. Malang Regency's GRDP is anchored by a large agricultural sector that does not constitute a strategically taxable regional object, as most of it falls outside regional tax jurisdiction or is under central government authority. As a result, PAD potential is limited, with cumulative own-source revenue reaching only IDR 3 trillion, while total cumulative transfer funds received swelled to IDR 13 trillion, dominated by the DAU with an average annual receipt of IDR 1.6 trillion, peaking at IDR 1.8 trillion in 2024.

Comprehensively, this disparity in LRA posture across Malang Raya demonstrates that fiscal decentralization has yet to fully succeed in equalizing regional economic independence. This is corroborated by findings from Dalisawintri et al. (2025), Yuniasari & Pravitasari (2025), and Hilen Julianti (2024), which affirm that the transition toward fiscal autonomy progresses far more slowly in regions dependent on primary sectors or a single tourism base. As long as local governments are unable to diversify their PAD sources, dependency on equalization funds will continue to constitute a structural problem that constrains regional discretion in formulating an APBD that is responsive to local needs.

### **Capital Expenditure Activity Ratio in Malang Raya Local Governments**

The capital expenditure activity ratio is a critical indicator for assessing local government commitment to long-term infrastructure development and public service delivery. However, the Post Hoc statistical test reveals a paradox within the Malang Raya region: no significant differences exist in the capital expenditure activity ratio across regions. This uniformity does not represent an ideal fiscal condition; rather, it constitutes evidence that all three regions face similar constraints in terms of regional fiscal space. The proportion of capital expenditure across all three regions uniformly stands at a concerning level, hovering in the low double digits, and is continuously eroded by the high operational expenditure harmony ratio.

The total cumulative capital expenditure allocation in Malang Regency over the observation period amounted to only IDR 2 trillion, predominantly directed toward road, irrigation, and network infrastructure, with an average of IDR 331 billion per year, peaking at IDR 446 billion in 2022, against a total cumulative regional expenditure of IDR 20 trillion. Based on LRA data, Malang City's cumulative capital expenditure over the observation period absorbed only IDR 1 trillion, predominantly allocated toward equipment and machinery, with an average of IDR 96 billion per year, peaking at IDR 115 billion in 2022, out of a total cumulative APBD circulation of IDR 11 trillion. Batu City's total cumulative capital expenditure allocation over the observation period amounted to only IDR 559 billion, predominantly directed toward road, irrigation, and network infrastructure, with an average of IDR 40 billion per year, peaking at IDR 59 billion in 2021, out of total cumulative regional expenditure of IDR 5 trillion.

Specifically, this public investment stagnation creates structurally distinct constraints across each region. In Malang Regency, the vast geographical territory spanning 33 sub-districts demands high baseline physical development, yet the average capital expenditure allocation is marginal relative to total regional spending. In Malang City, its status as an agglomeration center demands continuous urban infrastructure renewal to address urbanization pressures, yet capital expenditure absorption fails to match this burden and is dominated by equipment and machinery spending. Meanwhile, Batu City, whose economy is anchored to tourism, paradoxically records the most conservative capital expenditure proportion, a condition that risks eroding the attractiveness and carrying capacity of its tourism infrastructure in the future.

The uniformly low capital expenditure activity ratio constitutes empirical evidence that regional budget planning has yet to be oriented toward the creation of long-term added value. This mirrors findings from Oktaviani & Sugiarto (2025) and Sururi (2025), who highlight that capital expenditure allocation is frequently subordinated to the fulfillment of routine operational obligations. From the perspective of Budgeting Theory, this phenomenon reflects incremental

budgeting syndrome, wherein capital expenditure is reduced to a mere "residual variable", allocated only after all bureaucratic operational requirements have been satisfied.

Agency Theory explains that the dominance of operational expenditure and the scarcity of public investment signal elevated agency costs. Local governments (as agents) demonstrably prioritize budgetary resources for maintaining their own bureaucratic routines, rather than fulfilling their mandate to optimize public welfare (for the principal) through productive and sustainable public facility development.

### **Operational Expenditure Harmony Ratio in Malang Raya Local Governments**

Analysis of the harmony ratio is a critical indicator for assessing the APBD allocation balance between operational expenditure (routine bureaucratic requirements) and capital expenditure (public development). From the perspective of Agency Theory, the high proportion of operational spending reinforces the tendency of agents (local governments) to become entrenched in internal financing, rendering the allocation that should be returned to the community (principal) disproportionate. From a Budgeting Theory perspective, this APBD posture, heavily weighted toward routine costs, severely narrows fiscal space. This confirms that the budget evaluation mechanism has yet to be rigorously applied to curtail expenditure inefficiencies on a year-on-year basis.

Post Hoc test findings confirm the existence of highly significant variation in operational expenditure proportions, with Malang Regency recording a lower ratio compared to both Malang City and Batu City. Conversely, the revenue and expenditure growth trajectories across all three regions are proven to be uniform, a systematic consequence of the economic contraction caused by the COVID-19 pandemic at the outset of the observation period (2020–2021) and the concurrent national fiscal recovery policies implemented in subsequent years.

The same structural pattern is deeply entrenched in Batu City, where total cumulative routine operational expenditure consumed IDR 4 trillion over the observation period, predominantly allocated to personnel expenditure with an average annual outlay of IDR 382 billion, peaking at IDR 407 billion in 2024, a significant increase reflecting adjustments to national salary policies and benefit provisions, out of total cumulative expenditure of IDR 5 trillion. This absolute dominance is structurally rational yet fiscally problematic.

Based on LRA data, Malang Regency records the largest nominal operational expenditure figure, reaching a total accumulation of IDR 16 trillion over the observation period, predominantly allocated to personnel expenditure with an average annual outlay of IDR 1.4 trillion, peaking at IDR 1.6 trillion in 2024. The dominance of this figure confirms that the majority of regional fiscal capacity remains absorbed by bureaucratic operational requirements and civil servant salary obligations, out of total cumulative expenditure of IDR 20 trillion.

Based on LRA data, total cumulative operational expenditure in Malang City absorbed IDR 9 trillion, predominantly allocated to personnel expenditure with an average annual outlay of IDR 822 billion, peaking at IDR 910 billion in 2024. This significant increase in the final year reflects an expansion of personnel expenditure burdens driven by national salary adjustment policies and the fulfillment of financial entitlements for regional government apparatus to maintain service delivery stability in Malang City, out of total cumulative expenditure of IDR 11 trillion.

Overall, this structural phenomenon across the Malang Raya region confirms that the dominance of operational expenditure, particularly the rigid burden of personnel spending, constitutes a systemic and deeply rooted problem in regional financial management. This finding is consistent with research by Yuliani & Purnamawati (2025), Hidayatullah et al. (2024), and Zahro et al. (2025), which assert that the APBD posture across many regions in Indonesia remains trapped in wasteful routine bureaucratic spending (inefficiency), ultimately crowding out essential capital expenditure allocations for public development.

Revenue Growth Ratio and Regional Expenditure Growth Ratio in Malang Raya Local Governments

The revenue growth ratio reveals no meaningful variation between variables, nor does the expenditure growth ratio across the local governments of the Malang Raya region, during the 2020–2024 period. These findings, which contradict the initial hypothesis, demonstrate that Malang Regency, Malang City, and Batu City experienced concurrent fluctuating financial posture trends. This uniformity was triggered by exposure to the same macroeconomic shock, specifically, the impact of the COVID-19 pandemic followed by a recovery phase. During the contraction phase (2020), restrictions on social activities caused a simultaneous collapse in regional revenue, reaching the deepest contractions of -86% in Batu City and -78% in Malang City, compelling local governments to undertake budget refocusing and expenditure restraint. Conversely, upon entering the recovery phase, fiscal stimulus triggered an economic rebound characterized by revenue growth surges ranging from 15% to 38%.

This uniform ratio movement pattern illustrates that fluctuations resulting from systemic crises are felt equally across regions with strong market integration (Hidayatullah et al., 2024; Isro'atul Lailiyah & Desitama, 2024; Zahro et al., 2025). From the perspective of Budgeting Theory, the parallel movement between expenditure and revenue growth constitutes empirical evidence of incremental budgeting practices, wherein regional expenditure expansion mechanically adapts to historical revenue trends. Furthermore, from the standpoint of Agency Theory, pandemic-induced fluctuations serve as a test of agents' proactivity, agents are required to create new economic value in the post-crisis period to maintain fiscal equilibrium and prevent accumulated deficits from burdening the community (principal) in the future.

### **Synthesis of Malang Raya Regional Financial Performance**

Overall, financial performance across Malang Raya demonstrates that structural characteristics and regional economic bases are the primary determinants of APBD fiscal health. Malang City emerges as the strongest performer in terms of effectiveness and fiscal autonomy, underpinned by the rapid circulation of its services and trade sectors. In contrast, Malang Regency records high transfer fund dependency owing to its substantial territorial burden supported only by an agrarian sector, while Batu City must continuously prioritize infrastructure capital expenditure allocation to maintain the competitiveness of its tourism sector. This confirms that regional financial governance strategies cannot be uniformly standardized; rather, they must be specifically adapted to the fiscal capacity and actual potential of each individual region.

From the perspective of Agency Theory, the findings indicate that local governments as agents need to enhance accountability in managing own-source revenue, transfer funds, and regional expenditure in order to deliver optimal benefits to the community as principal. Meanwhile, from a Budgeting Theory perspective, the findings underscore the necessity of improving the quality of budget planning and allocation, ensuring that the APBD is oriented not merely toward financing routine governmental activities, but also toward driving long-term development through increased public investment and more productive capital expenditure.

## **Conclusion**

The study demonstrates that differences in financial performance exist across several dimensions among the Governments of Malang Regency, Malang City, and Batu City during the 2020–2024 period. The PAD efficiency ratio, transfer fund dependency ratio, and operational expenditure harmony ratio show statistically significant differences across regions, while the PAD effectiveness ratio, capital expenditure activity ratio, revenue growth ratio, and expenditure growth ratio reveal no significant differences. Malang City exhibits relatively superior performance in PAD efficiency and fiscal independence, supported by its trade, services, education, and property sectors. Malang Regency continues to face high transfer fund dependency due to its territorial scale and substantial public service expenditure requirements, while Batu City possesses strong PAD potential from the tourism sector but remains vulnerable to external economic fluctuations. Overall, the findings indicate that regional economic characteristics and fiscal capacity are the key determinants shaping the financial performance of local governments in the Malang Raya region.

Local governments in the Malang Raya region are advised to enhance the quality of financial management through the optimization of Own-Source Revenue (PAD), the containment of operational expenditure, and the augmentation of the capital expenditure proportion in order to strengthen fiscal independence and support long-term development. Malang Regency should broaden its revenue base in alignment with its regional potential; Malang City should sustain and consolidate the PAD management effectiveness and efficiency it has already achieved; while Batu City should diversify its PAD sources to reduce excessive dependence on the tourism sector. Future research is recommended to expand the geographic scope and observation period, and to incorporate additional financial performance indicators, in order to obtain a more comprehensive picture of regional government financial conditions.

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