Do Characteristics And Political Background Of Regional Heads Influence Financial Performance Of Local Governments In Indonesia?

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Abstract
The present research aims at examining the influence of characteristics and political background of regional heads on financial performance of local governments in Indonesia. The population in the present research includes local governments in Indonesia. The samples are second level of local governments in Java. The total number of final samples is 112. Data comprise the APBD realization reports, data from official websites of local governments, and data from official website of the Local Government Election Commission. Panel data regression was employed for data analysis. The results of the present study indicate that educational background and level of education exert an influence on financial performance of local governments. Meanwhile, tenure, age, and political background do not have a significant influence on financial performance of local governments. The present research was only conducted at second level of local governments in Java in 2016—2018. The present research gives contribution to the literature of local government performance, especially from the perspectives of financial performance of second level local governments in Java Island. Research on the use of political background has rarely been conducted to assess financial performance of local governments.

Keywords: Characteristics of regional heads, Political background, Financial performance

I. INTRODUCTION
The paradigm of regional financial management has experienced a fundamental change since the implementation of regional autonomy principle. Mardiasmo (2009) revealed that such policies as regional autonomy and decentralization are strategic steps in two respects. First, regional autonomy and decentralization are the answers to Indonesia’s domestic issues including threat of national disintegration, poverty, inequality in development, low quality of life of people, and issues in human resource development (HRD). Second, regional autonomy and fiscal decentralization are strategic steps to encounter era of economic globalization by strengthening regional economy. Decentralization refers to the transfer of decision-making authority to elected local authorities. The main objectives of decentralization in Indonesia are to promote better delivery of government services and improve local government accountability (Rusmin et al., 2014). The implementation of regional autonomy principle requires monitoring, evaluation, and measurement of systematic performance. Performance measurement is an important element in local government modernization to achieve prosperity and justice. Performance indicators will identify the best practice, thus encouraging local governments to improve performance (Boyle, 2000). The performance improvement is expected to establish good governance. In connection with the context of regional autonomy, value for money is a bridge to achieve good governance which must be operationalized in regional financial management.

Both central government and citizens demand local governments to focus on the concept of value for money as a strategy to reduce costs. In line with this, the demand for local government performance information continues to increase (Mardiasmo, 2009; Brusca and Montesinos, 2016). Good regional financial management will contribute to regional development. It requires not only reliable human resources but also adequate regional financial capacity. The concept of value for money is not only implemented in regional financial management but also in budget management. Budget will reveal what will be done in the future. Conflicts that occur in determining the budget greatly affect executive capability (Bastian, 2010). Research on executive performance includes Sebaa et al. (2009), Manner (2010), Finkelstein and Hambrick (1990), Boeker (1997), Datta and Guthrie (1994), Maxam et al., (2006), Zee and Swagerman (2009), Gomes et al. (2013). They attribute managerial characteristics to performance. Upper echelons theory explains that
managerial characteristics consist of age, education, tenure, and gender. Research on upper echelon shows that CEO’s experience, values, and personality will influence vision, selective perception, interpretation, selection of strategies, and ultimately performance, and therefore it can be said that an organization is the reflection of its CEO (Hambrick and Mason, 1984). In public sector, a regional head must have typical characteristics in order to change its region for the better. For example, with his capability, a regional head can develop and manage the existing resources to stimulate economic growth. The better the economic growth is, the better the level of regional financial independence will be. Therefore, it is expected that social welfare can be achieved. A regional head has a significant influence on performance in public sector (Fernandez et al., 2010; Avellaneda, 2012; Petrovsky et al., 2017; Petrovsky and Avellaneda, 2014). Demographic variables include gender, age, income level, occupational concentration (Chatman and Flynn, 2001; Lawrence, 1997; Stevens, 2005; Wei et al., 2005), level of education and tenure (Sebaa, et al., 2009). A regional head gives a significant influence on strategies of which selection reflects his performance and affects financial condition of the authority (Rusmin et al., 2014).

Government performance is closely related to political influence. Political process in Indonesia is reflected in general election process. Regional head election is political recruitment in which candidates are elected by the people. It is an arena where candidates nominated by political parties coalitions compete each other. Political parties provide political support to help their candidate win the election. Incumbent candidates are more likely to be more electable since they have strong social capital and ability to take control over regional policies. Electability has been the most important force motivating political parties to nominate candidates for regional head. However, when a candidate wins and serves as a regional head, electability cannot be used as the main benchmark to measure his performance as a regional head. Incumbent candidates may encounter suspicion of misappropriation of the Regional Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Daerah—APBD), and therefore they have to try harder to win the election. This condition allows the incumbent candidates to politicize the budget process. Decision about the use of local government resources is comprehended as bargain between administrators and political leaders in local government (Kalseth and Rattsø, 1998). The phenomenon on the politicization of the budget process according to the Corruption Eradication Commission (Komisi Pemberantasan Korupsi—KPK) emerged in 2018. An example of the phenomenon is the involvement of several incumbent candidates such as Pakpak Bharat regent, Cirebon regent, Central Lampung regent, and Kutaikartanegara regent in cases of corruption. Political mechanisms can affect financial governance in several ways including involvement of interest groups (political parties), intersociety relations, as well as executive-legislative relations.

If the implementation of governmental management is driven by political interests, the people will be victims of unfair welfare. Fair social welfare is reflected in fairly-distributed economic growth. Better financial performance of local governments leads to improved social welfare. In fact, however, several regional heads have not yet made significant change in economic well-being during their reign. In addition, despite the revenue from transfer of funds from central government and external sources to finance activities organized by local governments, inequality, both social and economic, is still found in some regions. The present research is the development of research by Rusmin et al., (2014) and Sebaa et al., (2009). Previous research focused on the influence of the characteristics of regional heads on financial performance of local governments. Research on the impact of the political background of regional heads has rarely been conducted, whereas in fact political background of regional heads is closely related to the performance of local governments. The implementation of decentralized local governance adheres to the principle of regional autonomy which in practice cannot be separated from political power (Hadita, 2020). The aim of this paper is to examine the influence of characteristics of regional heads, political background of regional heads, and intergovernmental revenue on financial performance of local governments. This research makes several contributions to the literature on local government performance, especially from the point of view of financial performance at second level of local governments in Java Island. First, the present research examines the characteristics of regional heads based on Upper Echelon Theory developed by Hambrick and Mason (1984), by using such factors as tenure and age. Second, it examines factor of political background proxied by the number of seats won by parties that nominated their candidates of regional heads. Third, it
examines the factor of governmental revenue in financial performance of local governments. The next section, we present the relevant literature and develop our hypothesis. Section 3 illustrates the research method. Section 4 present the data analysis used. Section 5 present the result and discussion, and section 6 conclusion the results while considering the study limitation and practical implication.

II. LITERATURE REVIEW AND HYPOTHESIS

2.1. Characteristics of regional heads and performance

Financial performance of local governments is the capability of a region to explore and manage original local financial resources in fulfilling its needs to support the running of government system, public services, and local development without much dependence on central government. Local government is given authority to spend budget for public interest within restrictions stipulated in statutes. In performance management, finance is a type of resource. With wise management of financial resources, a leader is more likely to improve quality of public services (Gomes et al., 2013). Research on performance and financial condition of local government using financial ratios has been conducted despite the absence of consensus on the best ratio to reveal financial position and performance of local government authorities (Rusmin et al., 2014; Sebaa et al., 2009; Cermeili, 2004; Groves et al., 1981; Pallis and Syriopoulos, 2007; Stevens, 2005). The principle of agency theory proposed by Jensen and Meckling (1976) emphasizes that there is an employment relationship between the party giving the authority (the principal) and the party accepting the authority (the agent). The relationship between the principal and the agent can lead to information imbalance because the agent has access to more information than the principal. The agency relationship in public sector is shown from the role of the people as the principal and the role of government as the agent. The government has an obligation to carry out public accountability in resource management. The demand for public sector accountability is related to the need for transparency and provision of information to the public in order to fulfil their rights.

Mandatory disclosure and transparent management are the cornerstones of public management. Some authors made hypotheses about the relationship between political factors and transparency (Guillamón et al., 2011). Guillamón et al., 2011) explain Ferejohn’s point of view that high level of transparency in a democratic country is required to ensure that the resource management is well-monitored. Political ideology is the determinant of transparency despite the dependence of its direction on the nature of information and the ruling political parties. Transparency and political participation in giving relevant information of plans, budgets, and activities make a significant contribution to transparency of local government performance (Piotrowski and Van Ryzin, 2007). In addition, political participation affects citizens and government (Christoph and Benno, 2006). In the context of the implementation of government, leadership is very influential because characters of a leader are considered to influence the running of government system. The leader must have both ability and expertise in leadership to motivate his subordinates to achieve the same goals, effective and efficient work patterns, as well as harmonious cooperation. Upper Echelon Theory assumes that both results and effective organizational strategies are the reflection of the cognitive abilities of central figures in an organization, affecting the financial condition. Hambrick and Mason (1984); Chatman and Flynn (2001); Stevens (2005); Wei et al. (2005) suggested such managerial characteristics as age, functional background, career experience, and education can often be used as indicators of managerial cognitive filters. In public organizations, educational background can help regional heads to anticipate consequence of their actions and negligence when carrying out work programs (Sebaa et al., 2009). In addition to reflecting credibility, education also gives confidence to a regional head to establish communication with higher officials to explore local resources. Level of education is positively correlated with the acceptance of innovation, change and growth (Sebaa et al., 2009); (Manner, 2010). In relation to tenure Sebaa et al. (2009) explain that long-tenured executives tend to choose defender strategy, while short-tenured ones will prefer prospector strategy. Younger top managers will like challenges better and be more innovative in improving the company strategy and finally the company performance (Hambrick and Mason, 1984).
2.2. Political background and performance.

In addition to the characteristics, regional heads are inseparable from support of their political parties. According to Friedrich, 1967 political parties are stably-organized groups of people with a goal of either claim or defend authority for the party leaders with which the members of the parties are given fair material benefits. Indeed they play role as a strategic connector between the process of government and citizens.

Political Background is description about a person on the formation and the separation of powers in the society, one of which is in the form of decision making, especially in the state (Winarna and Murni, 2007). Political pressures affect the budget. This can be seen from the decision-making mechanisms in the State Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Negara—APBN) planning, which include lobbying, negotiating, arguing, and encountering conflict of interest, all of which must be accommodated in the political products.

2.3. Relationship between educational background of regional heads and performance

Education is an important element in human life. With education, a person can learn knowledge with which he can have better thinking patterns. Gottesman and Morey (2010) state that a frequently-used characteristic of a CEO is educational background. The educational background of a CEO is an important aspect for stakeholders since it provides information about the CEO’s insight in thinking process. According to Hambrick and Mason (1984) education indicates a person's basic knowledge and skills. If it is assumed that most people consider to be serious when it comes to education, education functions as an indicator of a value of a person. The level and type of education contain complex information about a person. Furthermore, Hambrick and Mason (1984) explain that formal education of management team is positively correlated with innovation. In public organizations, educational background can help regional heads anticipate consequence of their actions and negligence when carrying out work programs. Education also generates confidence and trust in decision making. Empirical research conducted by Jensen and Zajac (2004) proves that managers pursue a strategy which fits their functional skills. Therefore, it can be concluded that educational background of regional heads exerts an influence on financial performance of local governments. The proposed hypothesis is:

\[ H_1: \] Educational background of regional heads exerts an influence on financial performance of local governments.

2.4. Relationship between level of education of regional heads and performance

Research on level of education of top managers indicates that executives with higher level of education have greater cognitive complexity (Hitt and Tyler, 1991; Wally and Baum, 1994). It is assumed that the cognitive complexity is more likely to absorb new ideas so that it will increase a tendency to accept innovation. In line with this, Bantel and Jackson (1989); Hambrick and Mason (1984) and Wiersema and Bantel (2014) suggest that level of education is attained with such attributes as cognitive abilities, abilities process information, and acceptance of innovation. Sebaa et al. (2009) concluded from existing literature that level of education is positively correlated with acceptance of innovation, change, and growth. In addition to reflecting credibility, education also gives regional heads a sense of confidence to establish communication with higher officials to explore local resources. Therefore, performance of local governments is influenced by educational quality of regional heads. It can be concluded that level of education of regional heads exerts an influence on financial performance of local governments. The proposed hypothesis is shown below.

\[ H_2: \] Level of education of regional heads exerts an influence on financial performance of local governments.

2.5. Relationship between Tenure of regional heads and performance

A number of researchers suggest that tenure in an organization will affect cognition of an executive (Boeker, 1997). Sebaa et al. (2009) found that long-tenured executives tend to prefer defender strategies, while short-tenured executives will prefer to use prospector strategies. Managers who work for long periods in an organization tend to have a limited perspective and avoid radical changes (Hambrick and Mason, 1984). With a long tenure, CEOs will have more control over decision-making process. CEOs also gain more knowledge, expertise and experience about their duties, along with increasing power in the organization.
(Herrmann and Datta, 2002). Thus, it can be stated that tenure of regional heads has an influence on financial performance of local governments. Based on the description above, the proposed hypothesis is:

H₃: Tenure of regional heads affects financial performance of local governments.

2.6. Relationship between age of regional heads and performance

Age, according to Hambrick and Mason (1984) as well as several other academicians, is one of important characteristics of a leader. Age logically represents the accumulation of experiences. Regional heads with a lot of experiences are more likely to have better performance. The experiences involve mature age (Pahlevi and Setiawan, 2017). Hambrick and Mason (1984) also explain that age correlates with willingness and ability of leaders to face risks. Older managers have more experiences carefully used to make decisions and deliver information (Hambrick and Mason, 1984). Age is generally a measure of a person's maturity level. An older person tends to be more careful in making decisions than a younger person. Younger people tend to like challenges, like to innovate, and be more enthusiastic (Pratiwi and Aryani, 2016). Therefore, the proposed hypothesis is:

H₄: Age of regional heads exerts an influence on financial performance of local governments.

2.7. Relationship between political background and performance

According to Sachsenroder et al. (1998), support from political parties towards a regional head has resulted in an agreement on campaign finance which frequently ignores prevailing rules. This may occur in the APBD formulation. Budgeting in public sector is a quite complicated stage bringing about intense political nuances (Mardiasmo, 2009). Based on the description, the proposed hypothesis is:

H₅: Political Background of regional heads exerts an influence on financial performance of local governments.

III. RESEARCH METHODS

3.1. Data and samples

The population in this study is local governments in Indonesia. The samples include second level local governments in Java with total samples of 119 regions consisting of 85 regencies and 34 cities. The samples were selected using a purposive sampling technique and therefore samples of 112 regions were obtained. The data of the research include the 2016—2018 financial statements of local governments accessed from the website of the Ministry of Finance of the Republic of Indonesia, www.djpk.depkeu.go.id. Data of characteristics of regional heads were obtained from websites of local governments, while data of political background of regional heads were accessed official website of the Local Government Election Commission (Komisi Pemilihan Umum—KPU).

3.2. Panel data regression models and variable descriptions

The models in the study of this are mathematically presented in the equations below:

Model 1

\[ Y = \alpha + \beta_1 \text{BACKG} + \beta_2 \text{PK\_DPRD} + \beta_3 \text{LN\_BMODAL} + \beta_4 \text{IR} + \beta_5 \text{LN\_LOCTX} + e \]

Model 2

\[ Y = \alpha + \beta_1 \text{LEVEL} + \beta_2 \text{PK\_DPRD} + \beta_3 \text{LN\_BMODAL} + \beta_4 \text{IR} + \beta_5 \text{LN\_LOCTX} + e \]

Model 3

\[ Y = \alpha + \beta_1 \text{TENURE} + \beta_2 \text{PK\_DPRD} + \beta_3 \text{LN\_BMODAL} + \beta_4 \text{IR} + \beta_5 \text{LN\_LOCTX} + e \]

Model 4

\[ Y = \alpha + \beta_1 \text{AGE} + \beta_2 \text{PK\_DPRD} + \beta_3 \text{LN\_BMODAL} + \beta_4 \text{IR} + \beta_5 \text{LN\_LOCTX} + e \]

Model 5

\[ Y = \alpha + \beta_1 \text{BACKG} + \beta_2 \text{LEVEL} + \beta_3 \text{TENURE} + \beta_4 \text{AGE} + \beta_5 \text{PK\_DPRD} + \beta_6 \text{LN\_BMODAL} + \beta_7 \text{IR} + \beta_8 \text{LN\_LOCTX} + e \]

3.3. Measures

The ratio of effectiveness of the original local government revenue (Pendapatan Asli Daerah -PAD) (RE\_PAD). RE\_PAD describes the ability of local government to realize the planned PAD compared to the targets set based on the real potentials of the region (Halim and Kusufi, 2013). RE\_PAD was measured using comparing the realization of the PAD and the targeted PAD determined based on the real potentials of the
region (Halim and Kusufi, 2013). Educational background (BACKG). Educational background is the type of education a person took to learn certain knowledge which is later applied to the work (Gottesman and Morey, 2010). BACKG was measured using dummy variable, 0 = non-economics and 1 = economics. This variable has also been used by Bamber et al. (2010). Level of education (LEVEL). The level of education reflects a person’s cognitive abilities and skills. Individuals with higher levels of education are expected to have awareness and accept the need for strategic change (Wiersema and Bantel, 2014). LEVEL was measured using Hambrick and Mason (1984), Sebaa et al. (2009) five item scale. The scale are 1 = high school, 2 = diploma, 3 = bachelor, 4 = master, and 5 = doctorate.

Tenure. Tenure is the total periods a person works in an organization (Pennino, 2002). Tenure was measured using total length (using month as the unit of time) of a person serving as a regional head (Sebaa et al., 2009). Age. The length of time (using years as the unit of time) a person has lived. Age was measured using total biological ages of regional heads (Sebaa et al., 2009). Political background (PK_DPRD). Political background is defined as the total number of seats in the Regional Representative Council (Dewan Perwakilan Rakyat Daerah—DPRD) won by parties supporting their regional head. PK_DPRD was measured using total number of seats in the DPRD. This measurement is developed from research by Winarna and Murni (2007). Control variable. First, capital expenditure (Ln_BMODAL). Capital expenditure is an expenditure allocated for the acquisition of fixed assets to facilitate regional development (Mardiasmo, 2009). Ln_BMODAL was measured using total realization of capital expenditure (Andirfa et al., 2016). Second, intergovernmental revenue (IR). Intergovernmental revenue is the revenue received by local government from external sources, which does not require repayment (Patrick, 2007). IR was measured using comparing the total balanced funds and the total revenue (Sesotyaningtyas, 2012). Third, revenue from local taxes (Ln_LOCTAX). Revenue from local taxes is used for regional development fund and society (Sesotyaningtyas, 2012). Ln_LOCTAX was measured using total realization of revenue from local taxes (Sesotyaningtyas, 2012).

IV. DATA ANALYSIS
The present research tests the influence of each independent variable on the dependent variable using Panel Data Regression Analysis. Models were tested using random effects approaches improving the efficiency of the least square process by taking time series errors and cross section into account. The Random Effect Model (REM) is a variation of the generalized least square (GLS) estimation.

V. RESULTS AND DISCUSSION

Table 1. Statistics descriptive

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>RE_PAD</td>
<td>119.5</td>
<td>116.5</td>
<td>199.4</td>
<td>50.2</td>
</tr>
<tr>
<td>BACKG</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>LEVEL</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>TENURE</td>
<td>58</td>
<td>59</td>
<td>120</td>
<td>10</td>
</tr>
<tr>
<td>AGE</td>
<td>53</td>
<td>54</td>
<td>71</td>
<td>30</td>
</tr>
<tr>
<td>PK_DPRD</td>
<td>37</td>
<td>36</td>
<td>82</td>
<td>11</td>
</tr>
<tr>
<td>IR</td>
<td>0.6</td>
<td>0.6</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Ln_BMODAL</td>
<td>26.8</td>
<td>26.7</td>
<td>28.8</td>
<td>25.5</td>
</tr>
<tr>
<td>Ln_LOCTAX</td>
<td>25.6</td>
<td>25.3</td>
<td>34.5</td>
<td>23</td>
</tr>
</tbody>
</table>

Table I shows the summary of the statistic description of the research samples. The mean score of financial performance seen from the effectivenes ratio of the PAD is 119.5. The greater the effectivenes ratio is, the more effective the financial performance of local government in managing the PAD will be. Based on the Decree of the Minister of Home Affairs No.690.900.327 (1996) the percentage above 100 indicates regional financial effectivenes. In term of educational background, most regional heads have non-economics educationale background. In term of level of education, average regional heads have bachelor degree. In term of tenure, the longest tenure of regional heads is 10 years or two elected terms, while the shortest tenure is 10 months. The mean score of the tenure is 5 years or one elected term. In term of age, average regional heads are aged between 45 and 55 years old. In term of proportion of the number of seats,
the lowest proportion is 11%, while the highest proportion is 82%, and therefore the mean score is 37%. The mean score of intergovernmental revenue is 0.6 or 60%.

The lowest score is 0.2 or 20%. The regions with the lowest score include Bekasi City, Tangerang City, Tangerang Regency, Semarang City, and Surabaya City. Meanwhile, the highest score is 0.8 or 80%. The regions with the highest score are Batu City, Ngawi Regency, Bojonegoro Regency, and Pangandaran Regency. The greater the amount of balance fund is the more intense the monitoring by central government will be. It is, therefore, expected that local governments will be more cautious in realizing their work programs and encouraged to improve their performance as a form of the responsibility for financial management due to their external financial source. The highest capital expenditure is seen in Serang Regency, reflecting the large number of infrastructure projects and facilities. Meanwhile, the lowest capital expenditure is seen in Tegal City and Mojokerto City. The highest revenue from local taxes, which influences the level of the PAD, is indicated in Purworejo Regency. Meanwhile, the lowest revenue from local taxes is seen in Banjar City. One of causes of the low revenue from local taxes is low per capita income.

Table 2. t- statistics for independent sample tests

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>BACKG</td>
<td>5.950431</td>
<td>2.312519</td>
<td></td>
<td></td>
<td>7.138682</td>
</tr>
<tr>
<td>LEVEL</td>
<td>1.741556</td>
<td>1.244853</td>
<td>-0.027980</td>
<td>-0.687085</td>
<td>1.908117***</td>
</tr>
<tr>
<td>TENURE</td>
<td>0.011598</td>
<td>0.145870</td>
<td>0.7689568</td>
<td>0.2718514*</td>
<td>0.015077****</td>
</tr>
<tr>
<td>AGE</td>
<td>0.020823</td>
<td>0.256715</td>
<td>0.7573008</td>
<td>2.644195*</td>
<td>0.015077****</td>
</tr>
<tr>
<td>PK_DPRD</td>
<td>0.027222</td>
<td>0.335884</td>
<td>0.725737</td>
<td>2.715945*</td>
<td>0.015077****</td>
</tr>
<tr>
<td>LN_BMODAL</td>
<td>0.029421</td>
<td>0.362807</td>
<td>0.738477</td>
<td>2.608107*</td>
<td>0.015077****</td>
</tr>
<tr>
<td>IR</td>
<td>0.002921</td>
<td>0.006456</td>
<td>0.019629</td>
<td>0.036456</td>
<td>0.015077****</td>
</tr>
<tr>
<td>LN_LOCTAX</td>
<td>0.006456</td>
<td>0.019629</td>
<td>0.019629</td>
<td>0.036456</td>
<td>0.015077****</td>
</tr>
<tr>
<td>R²</td>
<td>0.046878</td>
<td>0.035352</td>
<td>0.030255</td>
<td>0.029777</td>
<td>0.054992</td>
</tr>
<tr>
<td>Adj R²</td>
<td>0.032437</td>
<td>0.020736</td>
<td>0.015077</td>
<td>0.031872</td>
<td>0.054992</td>
</tr>
<tr>
<td>F-statistic</td>
<td>3.246124*</td>
<td>2.418723**</td>
<td>2.059132***</td>
<td>2.025592**</td>
<td>2.378584**</td>
</tr>
</tbody>
</table>

Cross-sections included: 112
Total panel (balanced) observations: 336

* ** *** indicate statistical significance at the 0.01; 0.05; 0.1

The test results of hypothesis as indicated by Table II prove that such variables as educational background (BACKG) and level of education (LEVEL) have a significant influence on financial performance (RE_PAD). Therefore, as seen from model 1 and 5, H₁ and H₂ are accepted. Meanwhile, such variables as tenure, age, and political background (PK_DPRD) do not have a significant influence, and therefore H₃, H₄, and H₅ are rejected. Such control variables as capital expenditure (LN_BMODAL) and intergovernmental revenue have a significant influence on model 1, model 3, and model 4. Model 2 contributes to significant results of the influence of capital expenditure on financial performance. Model 5 which makes use of all variables has coefficient of determination of 3% with significance level of 5% for F-test. Educational background has a significant influence on local government performance. It involves the background of education attained by a person. Lawrence (1997) states that a person with knowledge and expertise has the willingness to perform specific tasks. Empirical research confirms that managers pursue a strategy which fits their functional expertise (Jensen and Zajac, 2004). Managers with either finance or accounting background institute detailed and rigorous budgeting process. Milne and Patten (2002) explain that a person with experience in the field of accounting/business is more likely to comprehend finance and accounting practices, and therefore influences financial performance.
The level of education has a significant influence on financial performance of local government. This finding is consistent with the results of research by Sebaa et al. (2009), Hambrick and Mason (1984), Hitt and Tyler (1991), Wally and Baum (1994), Wiersema and Bantel (2014), and Bantel and Jackson (1989). The level of education has a negative influence on the performance of local government, meaning that the higher the level of education of a regional head is, the lower the performance of local government will be. This finding is not in line with the expectation that regional heads with higher level of education will have better quality of leadership. The measurement of the local government performance in the present research requires good understanding of governmental environment and commitment on society satisfaction towards governmental services. Therefore, regional heads with higher level of education do not always have better understanding of governmental environment and greater commitment on society satisfaction. A public manager will see problems around his environment from a lens made of personal experiences, values, and personality (Esteve et al., 2013). Research conducted by Yusup and Aryani (2015) shows that the level of education of regional heads has a positive influence on indications of corruption. Thus, regional heads with higher level of education are more likely to engage in corruption. This finding is in line with the results of research by Pratiwi and Aryani (2016) which proves that the level of education of regional heads has a negative influence on the opinion of the Audit Board (Badan Pemeriksa Keuangan—BPK) about the local government financial statements. In addition, this finding is in line with the results of research by Yusup and Aryani (2015), Pratiwi and Aryani (2016), Rahmanti and Prastiwi (2011) which show that the level of education does not contribute positively to the financial performance of local governments.

It is understood from the previous studies that tenure exerts an influence on performance. Finkelstein and Hambrick (1990) state that individuals working in an organization in long periods, especially if successfully pursuing their career, tend to be wiser in dealing with their jobs, and therefore they will affect the performance of the organization. Companies led by top management team with long tenure will be more likely to uphold the organizational strategies. However, the finding of the present research contradicts it. Tenure does not exert an influence on financial performance results of local governments. The variable of age indicates that the results do not have a significant influence on financial performance. The previous studies emphasize that older regional heads have better performance compared to younger regional heads. Older regional heads have more competitive advantages than younger regional heads since they have more experiences (Peni, 2014). However, seniority can be a biased measure because it is more likely that a long-tenured individual does not give significant contribution to improvement of financial performance of the company. The finding of the present research proves that age of regional heads do not exert an influence on financial performance of local governments. The testing results of the variable of political background measured using the proportion of seats in the DPRD reject the hypothesis, meaning that the number of parties supporting a regional head does not exert an influence on financial performance of the local government. As seen from model 1, model 3, and model 4, intergovernmental revenue is known to have a significant influence on financial performance of local governments.

Intergovernmental revenue is the revenue received by local government from external sources, which does not require repayment. The use of intergovernmental revenue, or so-called balanced fund, will be monitored by the central government. Therefore, the greater the amount of the balanced fund is, the more intense the monitoring by central government will be. It is, therefore, expected that local governments will be more cautious in realizing their work programs and encouraged to improve their performance as a form of the responsibility for financial management due to their external financial source. In addition to helping local governments finance the authorities, the revenue is used to reduce funding gaps between central government and local governments, as well as to minimize funding gaps among local governments (Pahlevi and Setiawan, 2017). The analysis results indicate that the amount of regional expenditure improves financial performance of local governments. This finding proves that increasing regional expenditure leads to better financial performance of local governments. Greater amount of regional expenditure means greater allocations for the regional development. The great amount of operating expenditure is used for procurement of goods and services, personnel expenses, and social assistance. The great amount of capital expenditure can be allocated for many productive needs to stimulate regional economy and consequently trigger better
performance of local governments. This finding is also in line with the results of research by Guo (2009) which indicate that regional expenditure is allocated by local governments at the end of their tenure to improve the performance of local governments. In addition, using samples of OECD countries, Siddi (2016) proves that regional expenditure gives a positive influence on performance of government.

VI. CONCLUSION

The results of the present research indicate that the characteristics of regional heads give a significant contribution to performance achievement of second level local governments in Indonesia. Regional heads with economics educational background and certain level of education are able to contribute to better financial performance achievement. The results confirm upper echelon theory by Hambrick and Mason (1984) and Quigley and Hambrick (2015) on the importance of observing characteristics of regional heads to evaluate their influence on the performance achievement of local governments. The performance achievement of local governments is not influenced by the tenure of the regional heads, age of regional heads, and the number of seats won by political parties supporting the regional heads. The performance achievement is influenced by cognitive abilities of regional heads based on their educational background and certain level of education. Two of the three control variables used exert an influence on financial performance achievement. They are intergovernmental revenue and capital expenditure.

Intergovernmental revenue or balance fund comes from the APBN allocated to autonomous regions to finance the needs in the region as well as to implement decentralization. The amount of the balanced fund is determined in the APBN every fiscal year. The balanced fund aims to reduce funding gaps between central government and local governments, as well as to minimize funding gaps among local governments. Meanwhile, capital expenditure is proved to exert an influence on financial performance. The capital expenditure is used to acquire fixed assets which give benefits for more than one accounting period. It includes maintenance expense to keep the assets working in its optimal condition as well as to improve the capacity and quality of the assets. Our pilot study has limitation. The present research was only conducted at second level of local governments in Java in 2016 - 2018. This study also gives contribution to the literature of local government performance, especially from the perspectives of financial performance of second level local governments in Java Island.

REFERENCES


