

## **Analysis of Economic Performance Determination in Supporting Community Welfare of District/City in Bali Province**

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### **Abstract**

The purpose of economic development is aimed to improve the community welfare. To realize the welfare community life, the government of Bali Province has implemented several effort through the work program with supported the existing budget. From the literature studies known that the financial performance, capital expenditure and the economic performance has influenced on the community welfare.

The purpose of this research is analysis (1) the effect of financial performance and capital expenditure on the economic performance; (2) the effect of financial performance, capital expenditure and economic performance on the community welfare; and (3) analysis of the non-direct effect of financial performance and the capital expenditure on the community welfare through the economic performance on the District/city of Bali Province.

This research is using panel data which are the combination between data of cross section which consists of 9 District with the data of time series 2010-2019. The data that used in this research is secondary data which is in the form of data which obtained from the financial data of the district/city of Bali province. The data managing and analysis is implemented with PLS Smart Software. The results and data analysis shows that (1) financial performance and capital expenditure has positive and significant influenced on the economic performance; (2) capital expenditure and economic performance has positive and significant influenced on the community welfare but the financial performance is not significant; and (3) financial

performance is indirectly positive and significant influenced on the community welfare through the economic performance while the capital expenditure is not significant.

The financial performance is able to improve the economic performance but unable to increase the community welfare, the financial performance holds the important and financial performance will be optimally on the community welfare if mediated by the economic performance on district/city of Bali Province.

### **Keywords**

Financial Performance, Capital Expenditure, Economic Performance, Community Welfare, Bali Province.

### **Introduction**

One of the welfare assessments is the proportion of food expenditure. The welfare is the reflection of the human life (quality of human life), which is a condition while the fulfillment of basic necessity with realization of life values. The term of family social health and family social welfare for the family this can give birth to individuals with good growth and development.

The effect of economic performance especially the income per capita on the IPM has proofed from several previous study. The results of (Arisman, 2018) stated that the important factor which influencing IPM in the ASEAN countries is income per capita. Thus also the research of Aravind (2019) shows that economic growth of the member countries of *The South Asian Association for Regional Cooperation (SAARC)* which proxies with GDP per capita influenced on IPM countries. The countries are Afganistan, Bangladesh, Bhutan, India, Maladewa, Nepal, Pakistan, dan Sri Langka. Thus also the report of World Bank (2001) that the higher income per capita causes the community access on another the community welfare component which is education and health will be higher.

The regional financial performance is on the capital expenditure allocation. The capital expenditure is the outcome which implemented in order to create the capital added the assets/inventories which gives the benefit more than one accountancy period includes expenditures for maintenance costs that maintain or increase the useful life, as well as increase the capacity and quality of assets (Halim, 2007). The capital expenditure can be divided into 5 groups; which is 1) land capital expenditure, 2) machine and tools of capital expenditure, 3) building and capital expenditure, 4) capital expenditures for roads, irrigation and networks, and 5) other physical capital expenditures.

The more of regional financial performance causes the capital expenditure allocation to improve the infrastructure performance, economic performance and community welfare. There are the effect of regional financial performance on the capital expenditure can be seen from the research result of (Tamawiwiy, Sondakh, & Warongan, 2016) in the district/city in the south Sulawesi. (Lucky, 2013) the research result in District/city of East Java also implemented by (Nur Putriasani, 2014; Putro, 2004).

The financial performance on the capital expenditure, infrastructure performance, economic performance, and community welfare can be seemed from Constitutions No. 32 and 33 of 2004. The regional autonomous gives the authority makes the regional policy to gives the service, the role improvement with community initiatives and empowerment which aimed to improve the community welfare which implemented efficiency and effective.

The regional autonomous will caused to the regional economic performance because the effect of freedom by the central government to the regional government to make the financial planning itself and makes the policy which can be influenced on the regional development. As it regulated concerning the regional itself to improves the community welfare. The regional government expected to maintain the resource that has and implementing the good governance so it will causes to the service that given to community will be optimal (Handra & Maryati, 2009).

The purpose from this research is analysis (1) the effect of the financial performance and capital expenditure on the economy performance; (2) the effect of financial performance, capital expenditure and economic performance on the community welfare; and (3) the analysis of the indirect effect on the financial performance and capital expenditure on the community welfare through the economic performance on the district/city of Bali Province.

## **Literature Review**

### **Community Welfare**

The purpose of economic development is to improve the sustainability of community welfare. In the study of economic organization in family is using the request on the good strategic as the welfare indicator. Another welfare measurement is the proportion of food expenditure. The welfare is the reflection of the quality of human life which is a condition whiles the fulfillment of necessity with the realization of life value. The term of family

social health and family social welfare for family which can create the individual with the growth and well developed.

One of the function of government to running errands is service and protecting the community importance and country, such as it stated by Keynes in the early of 20<sup>th</sup> century, Keynes argued that the government must to intervene in the public sector to improves the general economic, although it is opposite with the classic economic thinking where the government should play a reduced role except in the field of defense (capitalist theory). Keynes seems that the government expenditure is the exogenous variable from the economic development (Olomola, 2004).

In the economic sector, the government is representing the country to improve the sustainable welfare on citizen (Noor, 2015). Based on the theory which stated by Keynes, how important is the government's role in encouraging the economy to increase government spending through the ABPN/APBD to encourage an increase in the level of community welfare.

The community welfare level in this research is using the components of the Human Development Index or HDI (BPS, 2015) with indicator; a) education using the average length of school; b) health using life expectancy; c) per capita expenditure in districts/cities in Bali Province.

### **Economic Performance**

2015-2019 periods, Indonesia economic growth and Bali province in general can be said well although occurs in 2019 experienced slowdown, due to the slowdown in the performance of the global economy. From production side, the growth is pushed by almost all the business field. Whereas the domestic demand side, especially the household consumption increases, it driven by the level of consumer confidence and the distribution of social assistance/subsidies. In the Bali Province the economic growth highly increases above the national economic growth trend.

The measurement of economic performance which often concerns to know the economic development of a region or country is the economic growth and the labor, productivity, standard of living, unemployment, inflation, savings and capital formation, and other variables (Abel & Bernanke, 2001). Among the benchmarks for economic performance, the most frequently used is the Gross Domestic Product (GDP) as stated (Samuelson & Nordhaus, 1995). GDP is defined as the goods value and service which produced of a economic region while the certain time which commonly a year. Related with this thing,

(Mankiw, 2012) stated that one of the dominant variable is used to know the economic performance is the economic growth level continuity. An economic can be said experiencing the growth if all the total of goods production and service that produced increases. To measure the economic growth that used is GDP value above the constant price (Rahardja & Manurung, 2001).

The economic performance is the achievement of the result of economic development in the research area. The indicators of regional economic performance is referred from (Eachern, 2000) is the economic growth with the indicator of income per capita, citizen above the poverty line and work chance.

### **Capital Expenditure**

According to the Government accountancy standards (GAS), the meaning of capital expenditure is expenditures made in the context of capital formation in the nature of adding to fixed assets / inventory that provide benefits for more than one accounting period, including the expenditure to maintain or increase the useful life, and increase the capacity and quality of assets. The capital expenditure allocated in order to implementing the service on the society and giving *multiplier-effect* (long term effect) both macro and micro for national economic especially for certain region. Fixed asset that has as causes the capital expenditure is the primary condition in giving the public service by regional government.

The effect of expenditure on the economic performance, especially on the economic growth has been proofed from the research by (Darma, 2014) that the federal capital expenditure in Nigeria during 1980-2010 has significant influenced on the economic growth. Thus also the research by (Al-Sharif & Bino, 2019) that the capital expenditure of Yordania Government gives the short term effect and the long term effect on the economic growth. The research by (Garaika, Margahana, Sari, & Feriyana, 2019) reveal that the financial performance has significant influenced on the regional economic performance with the proxy of economic growth and community welfare in District/City of South Sumatera Province during 2011-2018.

The capital expenditure is the expenditure which implemented in order to create the modal which in nature adds to fixed assets / inventories that provide benefits for more than one accounting period, including expenditures for maintenance costs that are maintaining or increasing the useful life, as well as increasing the capacity and quality of assets in accordance with the potential resources owned and the ability of the region to provide public goods and services as well as social protection (OECD, 2019). Related the capital

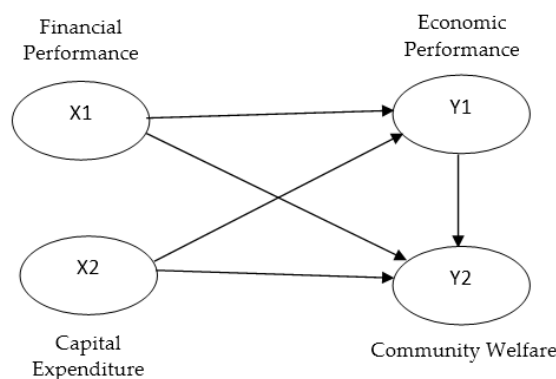
expenditure indicator in this research is capital expenditure ratio on the expenditure total, capital expenditure ratio on PDRB and capital expenditure per capita.

### **Financial Performance**

The regional government financial performance is the ability of a region to dig up and manage the regional original financial sources in fulfilling the necessity to support the running government systems, service to community and the regional development with does not depend entirely on the central government and has the flexibility to use funds for the benefit of local communities in the boundaries that determined by law and regulation (Syamsi, 1986).

The research which implemented by (Azhar, 2007) revealed that the performance is defined as the measures activity of an entity during the certain period as the part of work success measurement. The performance measurement is a process of continuous monitoring and reporting of activity achievements especially the development above the planned goals. The research which implemented by Mandell (1997), revealed that with implementing the measurement performance, the regional development obtained the information which can improve the quality of decision-making so that it will improve services to the community. The financial performance analysis basically enforced to assess the performance in the past with implementing several analyses so it obtained the financial position which represents the reality of the entity and its performance potentials that will continue (Sularso & Restianto, 2011) (Havid, 2011).

According to (Halim, 2007) several financial ratio which can be used to measure the regional government accountability is the independent ratio, effectiveness ratio, efficiency ratio of regional financial and the shopping compatibility ratio. The explanation related with the ratio of independent regional financial, effectiveness ratio, efficiency ratio, spending compatibility ratio and PAD effort ratio.



**Figure 1 Research Concept Framework**

## Hypothesis

1. The financial performance and capital expenditure has positive influenced on the economic performance to District/city of Bali Province.
2. The financial performance, capital expenditure and economic performance has positive influenced on the community welfare to district/city of Bali Province.
3. The economic performance has mediated the financial performance and the capital expenditure on the community welfare to District/city of Bali Province.

## Methodology

This research is using the panel data which is the combination between the data cross section which consists of 9 district/city data time series of 2010-2019. The data that used in this research is secondary data which is in the form of the data that obtained from the financial data on district/city of Bali province. Managing and analyzing the data is implemented with using the *software Smart PLS*.

**Table 1 Variable Identification**

No	Type of Variable	Name of Variable	Indicator	
1.	Exogenous	Financial Performance (X1)	X11: X12: X13:	Regional financial independence ratio Degree of decentralization Regional financial compatibility
2.	Exogenous	Capital Expenditure (X2)	X31: X32: X33:	Ratio of capital expenditure to total expenditure Ratio of capital expenditure to GRDP Capital expenditure per capita
3.	Mediation	Economic Performance (Y1)	Y11: Y12: Y13:	GDP per capita Percentage of non-poor population Employment Opportunity
4.	Endogen	Community Welfare (Y2)	Y21: Y22: Y23:	Average Length of School Life Expectancy Household Expenses

Source: Processed Data (2021)

## Data Analysis and Discussion

### Construct Validity Test

In the convergent validity test based on the loading factor can be seen on the Figure 1 and seems all indicators has the loading factor above 0,7 on the targeted construct.

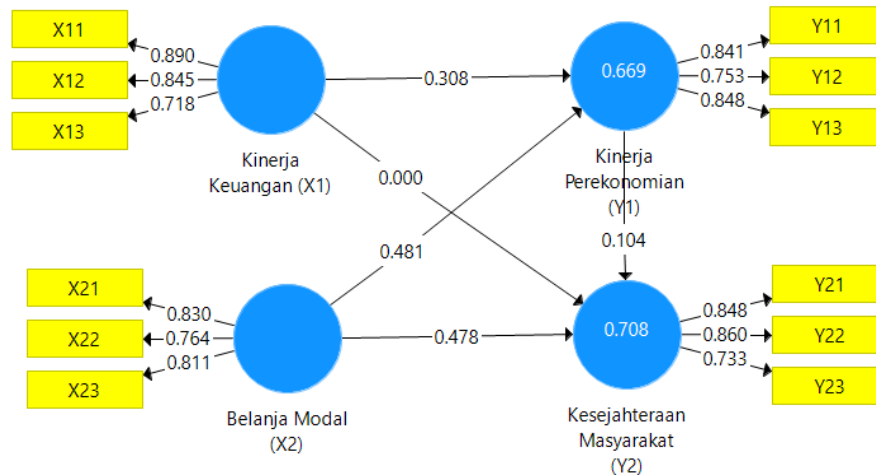


Figure 1 Full Model Structural

a. Loadings Factor Test

Table 2 Loading Factor

	Original Sample	Standard Deviation	T Statistics	P Values
X11 <- X1	0.890	0.016	56.401	0.000
X12 <- X1	0.845	0.026	32.859	0.000
X13 <- X1	0.718	0.060	11.874	0.000
X21 <- X2	0.830	0.037	22.298	0.000
X22 <- X2	0.764	0.040	19.236	0.000
X23 <- X2	0.811	0.049	16.679	0.000
Y11 <- Y1	0.841	0.025	33.071	0.000
Y12 <- Y1	0.753	0.049	15.363	0.000
Y13 <- Y1	0.848	0.029	29.524	0.000
Y21 <- Y2	0.848	0.038	22.343	0.000
Y22 <- Y2	0.860	0.034	24.920	0.000
Y23 <- Y2	0.733	0.042	17.351	0.000

Source: Processed Data (2021)

In Table 2 it can be seen that all indicators for all constructs have a loading factor (original sample) above 0.7. Thus it can be stated that all valid indicators reflect their respective constructs.

a. Fornell-Larcker Criterion Test

Table 3 Fornell-Larcker Criterion Test

	X1	X2	Y1	Y2
X1	0.821			
X2	0.614	0.802		
Y1	0.714	0.754	0.815	
Y2	0.588	0.816	0.750	0.815



Table 3 shows that the value above AVE on the variable is bigger from the another correlation of latent variable. Thus, the result of *Fornell-Larcker Criterion test* above can be said that the construct is stated valid.

### b. Cross Loadings Test

**Table 4 Cross Loading Research Variable Test**

	X1	X2	Y1	Y2
X11	0.890	0.559	0.691	0.530
X12	0.845	0.556	0.615	0.552
X13	0.718	0.361	0.402	0.323
X21	0.489	0.830	0.656	0.693
X22	0.593	0.764	0.628	0.609
X23	0.393	0.811	0.522	0.658
Y11	0.566	0.679	0.841	0.720
Y12	0.536	0.542	0.753	0.497
Y13	0.646	0.610	0.848	0.596
Y21	0.422	0.700	0.579	0.848

Source: Processed Data (2021)

Table 4 shows that every indicator has the higher cross loading value on the latent variable. This is shows that the entire indicators are fulfilling the validity discriminate on the Cross loadings test. Means all indicators are eligible to be included in further analysis.

### Construct Reliability Test

**Table 5 Construct Reliability Test**

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
X1	0.761	0.860	0.674
X2	0.723	0.844	0.644
Y1	0.748	0.855	0.664
Y2	0.744	0.856	0.665

Source: Processed Data (2021)

On the table 5 it seems the value of *Cronbach's Alpha*, *Composite Reliability* and *Average Variance Extracted* (AVE) for each construct all values are greater than 0.70 and AVE is greater than 0.5, thus all variables in this study are reliable.

### The Model Fit Testing (Goodness of Fit Inner Model)

The structural model of PLS processing result is needed to evaluated with using R-square for every dependent variable and *Q square predictive relevance* to every dependent

variable and Q Square predictive relevance to see the effect of exogenous latent construct on the endogenous variable. For the necessity the evaluation of Goodness of Fit Inner Model is shows on the table 6 which containing the R-Square coefficient for every endogenous variable.

**Table 6 Value of R-square Variable**

Variable	R Square
Economic Performance (Y1)	0,669
Community Welfare (Y2)	0,708

Source: Processed Data (2021)

Based on the two R<sup>2</sup> coefficient on the table 6 can be counted as much as Q<sup>2</sup> coefficient or Stone Geiser Q-Square test (Ghozali & Latan, 2012) which is:

$$Q^2 = 1 - \{(1 - R_1^2) (1 - R_2^2)\}$$

$$Q^2 = 1 - \{(1 - 0,669) (1 - 0,708)\}$$

$$Q^2 = 0,903$$

Based on the calculation result of predictive relevance (Q<sup>2</sup>) above, it shows that the value is 0,903. In this research model, the endogenous latent variable has the Q<sup>2</sup> relevance predictive value is bigger than 0 (zero) so the exogenous latent variable is in accordance as the explanatory variables that are able to predict the endogenous variables or in other words prove that this model is considered to have good predictive relevance used to make predictions.

### **Direct Influence and Indirect Influence**

To know the direct influence between construct variable can be seem from the analysis result of coefficient path value which shows in the table 7 below;

**Table 7 Path Coefficients, T-Statistics, P-Values**

	Original Sample	T Statistics	P Values	Significance
X1 -> Y1	0.404	6.957	0.000	Significant
X1 -> Y2	0.017	0.264	0.792	Non-Significant
X2 -> Y1	0.505	7.600	0.000	Significant
X2 -> Y2	0.576	5.143	0.000	Significant
Y1 -> Y2	0.304	2.215	0.027	Significant

Source: Processed Data (2021)

To understanding the indirect influence between construct variable which can be seem from the analysis result of indirect effects which shows in the table 8 below:

**Table 8 Value of Indirect Effects**

	Original Sample	T Statistics	P Values	Significance
X1 -> Y1 -> Y2	0.123	2.151	0.032	- Significant - Full Mediation
X2 -> Y1 -> Y2	0.153	1.945	0.052	- Non-Significant - Full Mediation

Source: Processed Data (2021)

### The Hypothesis Test

Hypothesis 1: the financial performance and the capital expenditure has positive influenced on the economic performance on the district/city of Bali Province.

Based on the data processing result it known that (1) the effect of financial performance on the economic performance has the regression coefficient as much as 0,404 and the significance level in the form of P value as much as 0,000. This is shows that the financial performance has positive and significant influenced on the economic performance on the district/city of Bali Province and the hypothesis is accepted; (2) the effect of capital expenditure on the significance level is in the form of P value as much as 0,000. This is shows that the expenditure has positive and significant influenced on the economic performance on the district/city of Bali Province and the hypothesis is accepted.

**Hypothesis 2: the financial performance, the capital expenditure and the economic performance has positive influenced on the community welfare on the district/city of Bali province.**

Based on the data processing result is known that (1) the effect of financial performance on people's welfare has a regression coefficient of 0.017, and a significant level of P-value of 0.792. This shows that financial performance has a positive and insignificant effect on community welfare in districts and cities in the province of Bali and the hypothesis is rejected; (2) the effect of capital expenditure on people's welfare has a regression coefficient of 0.576, and a significance level of P-value of 0.000. This is shows that the capital expenditure has positive and significant influenced on the community welfare on district/city of Bali province and the hypothesis is accepted; and (3) the effect of economic performance on the community welfare has the regression coefficient of 0,304 and the significance level is in the form of P value as much as 0,027. This is shows that the economic performance has positive and significant influenced on the community welfare on district/city of Bali province and hypothesis is accepted.

**Hypothesis 3: the economic performance is mediating the relationship of financial performance and capital expenditure on the community welfare on the district/city of Bali province**

Based on the data processing result is known that (1) the indirect influenced of the financial performance on the community welfare through the economic performance has the regression coefficient as much as 0,123 and the significance level is in the form of P value of 0,032. It means that the indirect effect of financial performance has positive and significant influenced on the community welfare through the economic performance on the district/city of Bali province and the hypothesis is accepted. The financial performance has direct and significant influenced on the economic performance, the economic performance has direct and significant influenced on the community welfare and the financial performance has direct and significant influenced on the community welfare and the financial performance has direct and not significant influenced on the community welfare. The nature of mediation in this relationship is fully mediation. This is shows that the improvement of financial performance on the community welfare cannot directly implemented and only implemented through the economic performance; (2) the indirect effect of capital expenditure on the community welfare through the economic performance has the regression coefficient of 0,153 and the significance level is in the form of P value of 0,052. It means that the indirect capital expenditure has positive and not significant influenced on the community welfare through the economic performance on the district/city of Bali province and the hypothesis is accepted. The capital expenditure has direct and significant influenced on the economic performance, the economic performance has direct and significant influenced on the community welfare and the capital structure has direct and significant influenced on the community welfare. The nature of mediation in this relationship is the partial mediation. This is shows that the improvement of capital expenditure on the community welfare can be implemented directly and it can be implemented through the mediation of economic performance.

**Discussion**

**The Direct Effect of Financial Performance on the Community Welfare**

The hypothesis test result shows that the financial performance has positive but not significant influenced on the community welfare. This finding has justified that the financial performance is not able to improve significantly of the community welfare on district/city of Bali Province. The financial performance is reflected most dominantly by regional financial compatibility ratio, and then followed by regional financial compatibility ratio and the decentralization degree. The PDRB indicators per capita has

the dominant role in the reflected from construct of economic performance, than it determined by poverty citizen percentage and work chance. The research result indicated that the function and the financial performance role are unable to give the meaning on the community welfare to district/city of Bali province. Not significant effect of the regional financial performance on the community performance on district/city of Bali province does not mean that the regional financial performance is not needed. The government of Bali province is still expected the sustainability of regional financial performance which more increases. In accordance with the data processing result has been explained before that the regional financial performance has the meaningful loading outer value.

The research by (Panjaitan & Yuliati, 2016) shows that the average degree of decentralization is still very low, the regional financial dependence ratio is still high, the regional financial independence ratio with consultative pattern, the ratio of operating expenditure to total expenditure dominates the allocation of expenditure compared to the ratio of capital expenditure to total expenditure and the efficiency ratio of expenditure is less efficient.

### **Research Findings**

The research findings as follows:

1. Financial Performance improves the economic performance but unable to improves the community welfare on district/city of Bali Province.
2. The financial performance holds the important and optimally on the community performance if mediated by the economic performance on district/city of Bali province.

### **The Research Contribution**

This research is empirically proofed that the conception of economic performance can be mediated the financial performance on the community welfare on district/city of Bali province. This results can be bases to arranged the programs, policy, and strategy for community welfare.

### **The Research Limitation**

The limitation which can be identified related for this research as follows.

1. This research only applied only a period of time during this research so this result research is not describe the same behavior for future and needed to longitudinal research in the future.

2. The financial performance relationship on the capital expenditure is not explained in this research so there is not description related the relationship between the financial performance on the capital expenditure and vice versa.

## **Conclusion and Suggestion**

### **Conclusion**

Based on the result and discussion which has been explained above, it can be concluded that:

1. The financial performance and social capital expenditure is able to improves the community welfare on district/city of Bali province.
2. Capital expenditure and economic performance has able to improves the community welfare on district/city of Bali province, while the financial performance has not significant role.
3. Economic performance is mediation the relationship of financial performance and capital expenditure on the community welfare on district/city of Bali Province.

### **Suggestion**

The financial performance is unable to give meaning to the welfare of the community in districts and cities in the province of Bali and the regional financial compatibility ratio indicator occupies the highest rank on the financial performance variable. The financial performance is needed to improves the role of regional financial independence and the degree of decentralization in order to give meaning to the improvement of community welfare in districts and cities in the province of Bali.

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