Does Corruption Have a Bad Impact on Local Government Performance

Khairudin [1], Rahmawati[2], Jaka Winarna[3], Evi Gantyowati [4]
[1]Universitas Bandar Lampung, Lampung Indonesia
[234]Universitas Sebelas Maret, Surakarta Indonesia
Correspondent: khairudin@ubl.ac.id[1]

ABSTRACT: Good government performance can increase organizational value, legitimacy, public support and also increase organizational survival. However, the performance of local governments based on HDI is still not good and places Indonesia below ASEAN countries such as: Singapore, Brunei Darussalam, Malaysia and Thailand. This study aims to examine the effect of corruption on local government performance, where this research was conducted on 34 provincial governments in Indonesia during the 2016-2020 period. This research is interesting because it has novelty in terms of measuring local government performance and corruption. Local government performance is measured using the Human Development Index whose data comes from BPS-RI and corruption is measured by the value of the rupiah audit findings by BPK-RI on budget implementation and efforts to fight corruption. The test results using panel data regression with the fixed effect model show that corruption has a positive and significant influence on local government performance.

Keywords: *Corruption, Local Government Performance*

INTRODUCTION

Government performance is a form of public accountability (Brusca & Montesinos, 2016; Mardiasmo, 2009) which is still a major concern of the community (Hutapea & Widyaningsih, 2017). The community is very interested in government performance, namely to assess the success of the government in running its government. The success of the government in running the wheels of government can be seen from financial performance as measured by financial ratios and non-financial performance as measured by assessing the extent to which people are satisfied with the services provided by the government. Good government performance certainly has a positive impact on the government and society, while poor government performance has a negative impact on the government and society (Hutapea & Widyaningsih, 2017).

Society demands the government to have good financial and non-financial performance, because good government performance can increase public satisfaction (Beeri et al., 2019; Weitz-Shapiro, 2008); increasing public trust (Bone, 2017); increasing legitimacy and public support (Ahyaruddin & Amrillah, 2018; Ashworth et al., 2009; Blume & Voigt, 2011); increasing organizational value

(Hermawan & Maf'ulah, 2014; Kurniati, 2019); increasing investment value (Desbordes & Wei, 2017; Maqbool & Zamir, 2020) and increasing organizational survival (Paeleman & Vanacker, 2015). However, the current performance of local governments in Indonesia is still not good, this is evidenced by the UNDP report which stated that for 3 (years) Indonesia's HDI was far below the HDI of ASEAN countries such as: Singapore, Brunei Darussalam, Malaysia and Thailand (UNDP, 2019) presented in the following table:

Table 1: Development of International HDI Rankings

Country	2017	2018	2019
Singapore	9	9	11
Brunei Darussalam	39	43	47
Malaysia	57	61	62
Thailand	83	77	79
Indonesia	116	111	107

Source: UNDP, 2020

The performance of local governments in Indonesia, which is still not in line with public expectations, is due to poor governance in governance which is characterized by high levels of corruption in local government organizations (Ahmad & Ali, 2010; Moldogaziev & Liu, 2021). This was reinforced by the (KPK, 2022) which stated that the largest perpetrators of corruption during the 2004-2021 period were carried out by regional heads and their staff (governors, mayors/regents, and echelon I/II/III officials) with a total of 421 perpetrators.

Research on corruption related to Local Government Performance has been carried out by several researchers in various parts of the world with different findings. (Romano et al., 2021) stated that corruption has a negative influence on the Italian Government's Performance in the Environment sector. (Alfada, 2019) states that Corruption has a negative influence on Economic Growth in Indonesia. (Sundström, 2016) found that corruption has a negative effect on legal performance in the South African government. (Rock, 2009) found that Corruption has a negative effect on Democratic Performance in 84 countries. (Pook, 2008) states that Corruption has a negative effect on Infrastructure Performance in the Bulgarian and Romanian Governments. The results of different studies include (Kurniawan et al., 2020) stating that Corruption has no effect on Economic Growth in OIC countries, because most of the most corrupt countries in the world are members of the OIC such as: Somalia, Syria, Sudan, Yemen, Afghanistan, Burundi, Libya, and Iraq. (Ahyaruddin & Amrillah, 2018) state that Corruption has a positive effect on Regional Government Performance in Indonesia because the implementation of regional autonomy has actually led to greater corruption in the regions, and the poor administration of regional government has created opportunities for corruption.

The inconsistent results of this research encourage the importance of this research and also as an effort to convince all interested parties that corruption is a very dangerous enemy in the life of the nation and state that must be eradicated immediately from Indonesia and the world. This research has novelty in terms of measuring local government performance and corruption. Local government performance is measured using the Human Development Index (IPM), because HDI contains performance in the education, health and economic sectors which are very

fundamental for the community. Corruption is measured by the magnitude of the value of state losses as a result of BPK-RI's findings, because the authorized institution determines whether there are regional or state financial losses based on Presidential Regulation no. 15 of 2006 is BPK-RI. Research by (Romano et al., 2021) measures corruption by the number of penalties for corruption crimes and government performance is measured by the environmental index. (Alfada, 2019) measures corruption by the amount of corruption investigated by the KPK and government performance is measured by gross domestic product growth. (Ahyaruddin & Amrillah, 2018) measure corruption by the amount of corruption that occurs and government performance is measured by the performance score of governance. (Rock, 2009) measures corruption by the amount of abuse of power that occurs and government performance is measured by the democratic performance index.

Agency theory is used in this study to explain the relationship between corruption and local government performance. Agency theory was popularized by (Jensen & Meckling, 1976) which explained that the agency relationship is a contract between one or more people (principal) employing another person (agent) to do work on behalf of the principal which involves delegating decision-making authority to the agent. Delegation of authority by the principal to the agent can lead to agency problems, namely information asymmetry and conflict of interest. (A. Smith, 1776) stated that if an organization is managed by a person or group of people who are not the actual owners, then there is a possibility that they are not working for the benefit of the owners. The application of Agency Theory can be done to public organizations such as local governments. The principal is the people represented by the legislature, while the regional leader, namely the governor/regent/mayor, is the agent. The principal chooses governors/regents/mayors through elections to run the government according to the mandate of the people (Bergman & Lane, 1990; Christensen, 1992; Halim & Abdullah, 2006; Moe, 1984; R. W. Smith & Bertozzi, 1996; Strom, 2000). (Scott, 2015) states that information asymmetry creates moral hazard and adverse selection. Moral hazard is an agent's action that violates a contract and violates ethics or norms, while adverse selection is an agent's action that deliberately hides or does not convey information to the principal. Moral hazard actions are often carried out in the form of corruption.

Law Number 31 of 1999 Article 2 Paragraph 1 states corruption is an unlawful act to enrich oneself or another person or a corporation, abuses authority, opportunities or facilities available to him because of his position or position which can be detrimental to state finances or the country's economy. (Nadeem et al., 2021) stated that the abuse of power by management can result in low quality of technological infrastructure as the main supporter of innovation so that innovation becomes hampered and has a negative impact on service performance. (Athanasouli & Goujard, 2015) stated that the abuse of authority inherent in their positions reflects poor management quality so that it has a negative impact on organizational performance. (Luo, 2002) states that abuse of authority in an organization can create a system that doesn't work properly so that it hinders organizational development and results in hampered achievement of organizational performance. Corruption can be grouped into 7 (seven) categories, namely: (1) state financial losses , (2) bribery, (3) embezzlement in office, (4) extortion, (5) fraudulent acts, (6) conflict of interest in procurement, and (7) gratuities. (Bologna, 1993) states that the causes of corruption are greed, opportunity, need, and exposure. (Klitgaard, 1988) stated that corruption is

caused by the monopoly of power. (Rasul, 2009) states that the cause of corruption in Indonesia is the non-implementation of the principles of good governance in the administration of the state.

Corruption is a virus that can harm state finances or the country's economy. (Chen et al., 2020) stated that corruption, which is growing and developing, can have an impact on decreasing organizational performance. (Habib et al., 2020) states that higher corruption results in worse environmental performance. (D'Agostino et al., 2016) stated that corruption which continues to increase can reduce economic growth. (Timmons & Garfias, 2015) stated that high corruption resulted in decreased government revenue from the tax sector, so that financial performance also decreased. (Sharma & Mitra, 2015) stated that increasingly corruption can reduce the value of investment, causing high unemployment. Ongoing corruption will have an impact on decreasing organizational performance (Ahmad & Ali, 2010; Sheng et al., 2016) and threaten the sustainability of the organization, namely operational activities will stop and even the organization will become bankrupt (Sinha et al., 2019; Zhang et al., 2019).

Corruption in many countries in the world has a negative effect, according to research results (Ahmad & Ali, 2010; Sheng *et al.*, 2016; Romano *et al.*, 2021; Sundström, 2016; Rock, 2009; Pook, 2008; Nadeem *et al.*, 2021; (Athanasouli & Goujard, 2015); Luo, 2002; Habib *et al.*, 2020; D'Agostino *et al.*, 2016; Timmons & Garfias, 2015; Sharma & Mitra, 2015; Sinha *et al.*, 2019; Zhang *et al.*, 2019). There is little empirical evidence to suggest that corruption has a positive impact (Ahyaruddin & Amrillah, 2018; Blackburn & Powell, 2011; Huang, 2016).

This research is expected to contribute to the addition of literature and can make a practical contribution to local government. One of the contributions for local governments is to provide information about the importance of eradicating corruption so that local governments can adopt the right policies so that governance runs efficiently and effectively and can further improve local government performance.

METHOD

This research was conducted on 34 Provincial Governments in Indonesia with the 2016-2020 observation period. The selection of the provincial government as the object of research is because the provincial government has greater resources to be able to improve organizational performance. Sampling used a purposive sampling method with the criterion that the provincial government to be studied has complete data on HDI and the value of the rupiah audit findings from BPS-RI and BPK RI for the 2016-2020 period. Government performance is interpreted as the achievement of the implementation of development programs for a period of the various resources used. Regional government performance is measured using the Human Development Index (IPM) because this index describes the main performance, including economic performance, health performance, and education performance. A high HDI value illustrates high government performance, while a low HDI value indicates poor government performance. Corruption is defined as abuse of authority which results in state losses or regional losses. Corruption is measured by the value of regional losses as a result of BPK-RI's findings because

the agency authorized to calculate the amount of state losses is BPK-RI. The value of large regional losses indicates high corruption practices that occur and the small regional loss values indicate that corrupt practices have decreased even further. The test was carried out using panel data regression because the data used in this study is panel data. The regression model of this study is as follows:

$$LGP_{it} = \alpha + \beta_{1CORPit} + \varepsilon_{it}$$

Where LGP_{it} is the performance of local government during the observation period as measured by HDI and $CORP_{it}$ is corruption during the observation period as measured using the value of state losses as a result of BPK-RI findings.

RESULT AND DISCUSSION

Table 1 displays descriptive statistics to determine the minimum value, maximum value, average value, and standard deviation value of the corruption and government performance variables. The results of descriptive statistical tests on local government performance and corruption in Indonesia during the observation period are presented in the following table:

Table 2: Descriptive Statistics

Variable	N	Minimum	Maksimum	Mean	Stdr Deviasi
Performance	170	56.75	80.47	69.17	4.14
Corruption	170	0.04	11661.82	129.07	915.86
Valid N (listwise)	170				

Source: Processed Data, 2020

Table 2 informs that the maximum value of local government performance in Indonesia of 80,47 was achieved by DKI Jakarta Province with the "very high" criterion, which means that DKI Jakarta Province is a province in Indonesia with very good performance. The high performance of the DKI Jakarta Provincial Government is because the DKI Jakarta Provincial Government has very complete facilities and infrastructure compared to other Provincial Governments in Indonesia. Complete facilities and infrastructure can increase employee morale and can facilitate the completion of work, so as to improve government performance. In addition, the Provincial Government of DKI has a governor who has many innovations and has firmness in running his government. Another reason is because the Provincial Government of DKI Jakarta is the national capital, so that the process of coordinating various issues related to the central government can be resolved immediately. The minimum value of local government performance of 56,75 was achieved by the Province of Papua with the "low" criterion. The low performance of the Papua Provincial Government is due to the fact that the location of the Papua Provincial Government is very far away and the terrain is very tough coupled with security disturbances from the Free Papua Organization which are still ongoing. This condition has caused the central government and investors to think again about carrying out development because the costs are

very expensive, so that development in Papua Province is experiencing a slowdown compared to other regions. This slowdown in development has prevented officials and employees in Papua Province from working optimally, which in turn has hampered the achievement of local government performance. The average regional government performance score was 69,17 with the "moderate" criterion. The still not good performance of the local government is triggered by the still not good governance (Kaufmann & Kraay, 2019) and also the high corruption practices in Indonesia carried out by government officials, where the biggest perpetrators of corruption during the 2004-2021 period were carried out by regional heads and their staff (governors, mayors/regents, and echelon I/II/III officials) with a total of 421 actors (KPK, 2019). The poor performance of the local government is triggered by the still not good governance and also the high corruption practices in Indonesia carried out by government officials (KPK, 2019). The biggest state/regional losses caused by corruption were in DKI Jakarta Province with a corruption value of Rp. 11,661 trillion, so that DKI Jakarta Province is considered the province that has caused the most losses to state/regional finances compared to other provinces in Indonesia. The high corruption practices in the DKI Jakarta Provincial Government are due to the lifestyle and the high cost of living in DKI Jakarta, so that officials and civil servants are trying to find additional income to meet their lifestyle and living needs. The fastest additional income for officials and civil servants is by abusing their authority or commonly known as corruption. The lowest corruption value is in West Kalimantan Province with a corruption value of Rp. 0,04 billion. The low level of corruption in the Provincial Government of West Kalimantan is driven by a good Government Internal Control System, so that the use of the budget for development is in accordance with the rules and its allocation and budget misappropriation by officials can be suppressed. The average value of corruption is Rp. 129 billion. The ongoing practice of corruption in provincial governments in Indonesia so far is due to the fact that the implementation of the Internal Control System for local governments has not been good and the sanctions have not been maximized for violations of existing laws and regulations. Legal sanctions that have not been maximized encourage the perpetrators to repeat their actions in the future so that corrupt practices will continue (BPKRI, 2019).

This study has tested the classical assumptions and also tested the model selection. The results of the classical assumption test show that all variables pass the classical assumption test, while the model selection test produces the fixed effect model as the most appropriate model. Testing the hypothesis with the fixed effect model shows the following results:

Table 3: Hypothesis Testing Results

Variable	Coefficient	t-Statistic	Prob
C	69.62805	58.06280	0.0000
CORP	1.209866	4.246625	0.0000
Adjusted R-squared		0.959725	
Prob F-statistic		0.000000	

Source: Processed Data, 2020

Table 3 informs that the prob value of the F-statistic is 0.000000 or (0.000000 <0.05), which means that the regression model is appropriate for explaining the effect of corruption on local government performance. Furthermore, testing the hypothesis shows that the hypothesis

formulated is not proven "unsupported", where the value of the corruption coefficient is 1.209866 and the probability value of t_statistic is 0.0000. This shows that corruption has a positive effect on local government performance. These findings have supported and strengthened (Ahyaruddin & Amrillah, 2018) research which stated that corruption has a positive effect on local government performance in Indonesia, but these findings contradict research (Romano *et al.*, 2021; (Alfada, 2019); Sundström, 2016; Rock, 2009; Pook, 2008) which states that corruption has a negative effect on government performance in various countries.

The finding that corruption has a positive effect on government performance is interesting to discuss. Corruption is an extraordinary crime because the negative impact it causes is extraordinary, so it is appropriate that the perpetrators of corruption must be punished to the maximum. The maximum sentence is intended so that corruptors will no longer repeat their actions in the future and also become a valuable lesson for potential new corruptors not to commit corruption. In Indonesia, which is a legal state, corruption crimes committed by regional officials are still ongoing. This is understandable because the punishment for corruptors has not been maximized and the perpetrators of corruption are still given room by law to be able to run for regional heads or members of the legislature, so that the perpetrators of corruption do not feel deterred from the punishment they receive and are likely to be repeated again in the future.

Punishments that are not optimal for corruptors cannot put pressure on corrupt practices and will even invite new elements to commit acts of corruption. This condition is understandable, because corruption is considered the fastest way to get money and wealth in large enough quantities, so that corruption is still the prima donna for unscrupulous officials by abusing their authority. Abuse of authority by officials in general must involve several people both at lower and upper levels and also involve external parties with varying roles and rewards. This is done so that corrupt practices can run smoothly. State money that has been successfully corrupted will be distributed to the parties involved according to their respective roles. Money from corruption will usually be used by corruptors for various needs, such as: primary needs, secondary needs, and other needs, so that in the short term it will encourage growth and further increase the demand for food, housing, vehicles, and others. The increasing demand for food, housing, vehicles, and others will encourage economic activity and local revenue in terms of local levies and taxes, because vehicles going in and out of an area will be subject to regional levies or taxes so that government performance increases. This explanation is in accordance with the findings of (Ahyaruddin & Amrillah, 2018; Blackburn & Powell, 2011; Huang, 2016) which states that money from corruption is usually used by corruptors for various needs, thus making the economy grow and further improving government performance in the economic sector.

This research empirically finds that corruption can improve government performance, which means that more people who commit corruption can improve government performance. However, the practice of corruption must be stopped immediately because the negative impacts arising from corruption are extraordinary for the sustainability of the nation and state in the form of: increasing poverty, increasing unemployment, reducing the quality of education, health and the environment, increasing the number of traffic accidents and work accidents, reducing quality of democracy, disrupting political and financial stability, reducing regional competitiveness, and making people lazy. Eradicating corruption in Indonesia is not only the duty of law enforcement

officials, but also the duty of all elements of the nation. All elements of the nation can play a role according to their competence, because eradicating corruption includes prevention as well as prosecution. Because without the cooperation of all parties, eradicating corruption is just a dream. The cooperation of all elements of the nation is urgently needed to accelerate the eradication of corruption in Indonesia, so that the Indonesian state in the not too distant future will become a country free from corrupt practices.

CONCLUSION

The results of empirical testing on existing data found evidence that corruption has a positive and significant effect on local government performance. This finding can be interpreted that corrupt practices can improve government performance or in other words good government performance does not necessarily guarantee that an area is free from corrupt practices or fraud. These findings inform that apart from having a huge negative impact on the sustainability of a government, it turns out that corruption also contributes to improving the performance of local governments through economic activities from the consumption of primary and secondary needs of corrupt actors. However, the practice of corruption must be stopped immediately because the negative impacts are far greater than the benefits. This study produces theoretical implications for the enrichment of accounting literature, especially in the public sector area related to the use of agency theory to explain the relationship of corruption to government performance. In addition, this research has practical implications for local governments and for law enforcers. For local governments, the implications of this finding are (1) local governments to be highly committed to realizing good governance so that they can reduce corrupt practices and provide rewards that are published nationally and globally for work units that do not commit corruption; (2) local governments must be more aware of real performance achievements, not just a formality to gain a WTP opinion and ignore the abuse or corruption that occurs. The implication of this finding for law enforcement officials is that law enforcers must immediately revise laws related to sanctions for violating the law (especially corruption) which are considered to be less than optimal, so that with maximum sanctions the perpetrators of corruption will be permanently deterred and candidates Corruptors are afraid to commit corruption. Lastly, this research has several weaknesses and limitations, so it needs improvement and development efforts in further research. First, the use of a proxy for the value of regional losses to measure corruption. This measurement has a weakness, namely the value of the loss does not have a permanent legal force. Subsequent research can use measurements from court institutions, so that it fulfills the elements of having permanent legal force. Second, this study only uses secondary data from valid institutions without confirmation in the form of interviews to find out and explain in more detail the results of the research findings. Therefore, future research is suggested to widen and extend the analysis by adding the results of interviews from parties who have relevant competencies to obtain maximum results related to the findings obtained. Third, the research sample is limited to the provincial government without involving the city/district government, so that future research is suggested to use the complete sample including: city/district government and provincial government.

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