

Exploring the drivers of public sector financial performance: accountability, transparency, and governance perspectives

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ABSTRACT

This study aims to examine the determinants of public sector financial performance by focusing on accountability, transparency, and governance perspectives. The research is motivated by the increasing demand for effective public financial management and the need to strengthen institutional performance in the public sector. A quantitative approach is employed using secondary data derived from government financial reports and related institutional disclosures. The data are analyzed using multiple regression analysis to assess the influence of accountability, transparency, and governance on financial performance. The findings indicate that accountability and transparency have a positive and significant effect on public sector financial performance, suggesting that improved reporting practices and openness contribute to better financial outcomes. Meanwhile, governance also demonstrates a significant influence, highlighting the importance of regulatory frameworks and internal control mechanisms in enhancing performance. These results imply that strengthening accountability systems, promoting transparency, and improving governance structures are essential strategies for achieving sustainable financial performance in public institutions. The study contributes to the public sector accounting literature by providing empirical evidence on the integrated role of accountability, transparency, and governance in shaping financial performance. Practically, the findings offer insights for policymakers and public managers to design more effective financial management policies and institutional reforms.

1. Introduction

Public sector financial performance has become a critical issue in modern governance as governments are required to demonstrate efficiency, effectiveness, and accountability in managing public resources. Increasing public demand for transparency and responsible financial practices has encouraged governments to improve institutional performance and reporting quality (Andrews, R., 2014; OECD, 2017). In developing countries, including Indonesia, this pressure is even more significant due to ongoing reforms in public financial management systems.

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Despite these reforms, several challenges remain, particularly related to weak accountability mechanisms, limited transparency, and inconsistent governance implementation. Issues such as delayed reporting and limited disclosure reduce the effectiveness of financial oversight (Hood, C., 2010). These conditions indicate that financial performance is influenced not only by technical budgeting processes but also by institutional behavior and governance quality.

Previous studies provide mixed findings regarding the determinants of public sector financial performance. Some studies highlight the importance of accountability in improving financial outcomes, while others emphasize transparency and governance as key drivers (Grimmelikhuijsen, S. & Meijer, A., 2014). However, many of these studies examine these variables separately, creating a gap in understanding their combined influence.

These inconsistencies indicate a gap in the literature regarding the integrated role of accountability, transparency, and governance in shaping public sector financial performance. Many prior studies tend to examine these variables separately, which limits a comprehensive understanding of how they interact in influencing financial outcomes. Therefore, this study seeks to address this gap by simultaneously analyzing the effects of accountability, transparency, and governance within a unified research framework.

Based on this background, the research questions of this study are formulated as follows: (1) Does accountability significantly affect public sector financial performance? (2) Does transparency contribute to improving financial performance? (3) How does governance influence financial performance in the public sector? In line with these questions, the objective of this study is to empirically examine the effect of accountability, transparency, and governance on public sector financial performance.

This research is expected to contribute both theoretically and practically. From a theoretical perspective, it enriches the public sector accounting literature by providing empirical evidence on the combined influence of key governance principles on financial performance. From a practical standpoint, the findings are expected to provide insights for policymakers and public managers in designing more effective financial management systems, strengthening institutional accountability, and enhancing transparency practices to achieve sustainable performance outcomes.

2. Theoretical Framework and Hypotheses Development

2.1. Theoretical Framework

The theoretical foundation of this study is built upon several interrelated perspectives that explain how accountability, transparency, and governance shape financial performance in the public sector. These perspectives provide a

conceptual basis for understanding the mechanisms through which public institutions manage resources and deliver measurable outcomes.

Agency theory explains the relationship between public officials and citizens, where the government acts as an agent responsible for managing public resources on behalf of the principal. This relationship may lead to information asymmetry, which requires accountability mechanisms to ensure proper resource management.

Stakeholder theory emphasizes that public institutions must serve broader interests, including society, regulators, and oversight bodies. Transparency becomes essential in this context, as it allows stakeholders to access information and evaluate government performance.

In addition, the concept of good governance provides a broader institutional framework that integrates accountability and transparency within a system of rules, processes, and controls. Governance in the public sector encompasses regulatory quality, internal control systems, audit mechanisms, and ethical standards that guide organizational behavior. Strong governance structures ensure that financial management processes are conducted in a consistent, disciplined, and compliant manner. This, in turn, supports the achievement of efficient and effective financial performance.

From a resource-based perspective, institutional capabilities such as governance quality, transparency systems, and accountability practices can be viewed as strategic resources that enhance organizational performance. Public institutions that are able to develop and sustain these capabilities are more likely to achieve superior financial outcomes compared to those with weaker institutional arrangements. These capabilities are not only technical but also embedded in organizational culture and leadership commitment.

By integrating these theoretical perspectives, this study conceptualizes that accountability, transparency, and governance are interdependent factors that collectively influence public sector financial performance. Accountability ensures responsibility in resource utilization, transparency facilitates information accessibility, and governance provides the structural framework that aligns organizational processes with established standards. Together, these elements form a comprehensive foundation for improving financial performance in public sector institutions.

2.2. Hypotheses Development

The development of hypotheses in this study is grounded in the theoretical arguments presented earlier, particularly agency theory, stakeholder theory, and the concept of good governance. These perspectives explain how accountability, transparency, and governance function as key determinants in shaping public sector financial performance.

Accountability is a fundamental principle in public financial management that reflects the obligation of public officials to justify the use of resources and the outcomes achieved. From the agency theory perspective, accountability mechanisms reduce information asymmetry between government entities and the public, thereby minimizing the potential for opportunistic behavior. Effective accountability practices, such as timely reporting, performance evaluation, and audit processes, ensure that financial activities are aligned with established objectives. When accountability is implemented consistently, it enhances the credibility and reliability of financial management, which ultimately leads to improved financial performance. Therefore, accountability is expected to have a positive influence on public sector financial performance.

H1: Accountability has a positive effect on public sector financial performance.

Transparency refers to the extent to which financial information is openly disclosed and accessible to stakeholders. In line with stakeholder theory, transparency enables external parties to monitor government activities and assess whether public resources are managed effectively. Greater transparency reduces uncertainty, strengthens public trust, and discourages inefficiency and misuse of funds. Moreover, transparent financial reporting facilitates better decision-making and supports institutional learning. As a result, higher levels of transparency are likely to contribute to improved financial performance in the public sector.

H2: Transparency has a positive effect on public sector financial performance.

Governance represents the system of rules, processes, and controls that guide organizational behavior in managing public resources. The concept of good governance emphasizes the importance of accountability, transparency, rule of law, and effective oversight in ensuring organizational performance. Strong governance structures, including internal control systems and audit mechanisms, provide a framework that promotes discipline and compliance in financial management. These structures help prevent irregularities and improve the efficiency of resource allocation. Consequently, governance is expected to play a significant role in enhancing public sector financial performance.

H3: Governance has a positive effect on public sector financial performance.

Based on these hypotheses, this study proposes that accountability, transparency, and governance simultaneously contribute to improving financial performance in the public sector. The empirical testing of these relationships is expected to provide a more comprehensive understanding of how governance-related factors influence financial outcomes.

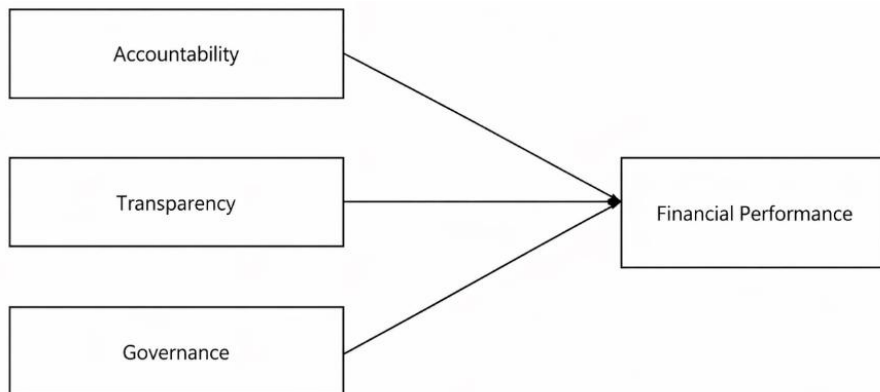


Figure 1. Conceptual Framework

The conceptual framework illustrates that accountability, transparency, and governance act as independent variables that directly influence public sector financial performance as the dependent variable. Each construct is hypothesized to have a positive effect, as indicated by the directional arrows pointing toward financial performance.

3. Research Method

3.1. Data Sample Collection

This study adopts a quantitative research design to investigate the effect of accountability, transparency, and governance on public sector financial performance. The research focuses on public sector institutions as the unit of analysis, particularly government entities that are responsible for managing and reporting public finances. The selection of this sector is based on its strategic role in ensuring efficient allocation and utilization of public resources.

The data used in this study are secondary data obtained from official financial reports and institutional disclosures published by government agencies. These include annual financial statements, budget realization reports, and audit reports that provide relevant information related to accountability, transparency, governance, and financial performance. The use of secondary data allows for objective measurement and minimizes potential bias associated with self-reported data.

The population of this study consists of public sector institutions that consistently publish financial reports within a specified observation period. The sampling technique applied is purposive sampling, where the selection of samples is based on specific criteria to ensure data relevance and completeness. The criteria include: (1) institutions that publish complete financial reports during the observation period, (2) availability of data required to measure

all research variables, and (3) consistency in reporting format to ensure comparability across observations.

The observation period is determined to capture recent conditions of public financial management and to provide sufficient variation in the data for analysis. Each selected institution represents a unit of observation, and the data are compiled into a panel dataset for further statistical testing.

Through this sampling approach, the study ensures that the selected data are reliable, comparable, and aligned with the research objectives. This process is essential to produce valid empirical findings regarding the relationship between accountability, transparency, governance, and financial performance in the public sector.

3.2. Technical Analysis and Variable Measurement

This study applies a quantitative analytical approach using multiple linear regression to examine the relationship between accountability, transparency, governance, and public sector financial performance. The analysis is conducted using statistical software to ensure accuracy and reliability of the results.

Before hypothesis testing, several classical assumption tests are performed to validate the regression model. These include normality testing to ensure data distribution is appropriate, multicollinearity testing to assess the correlation among independent variables, heteroscedasticity testing to verify the consistency of variance, and autocorrelation testing to detect potential correlation among residuals. These procedures are essential to ensure that the regression model meets the required statistical assumptions.

The empirical model used in this study can be formulated as follows:

Equation 1

$$FP = \alpha + \beta_1 ACC + \beta_2 TRA + \beta_3 GOV + e$$

Where:

FP = Financial Performance

α = Constant

β_1 – β_3 = Regression Coefficients

ACC = Accountability

TRA = Transparency

GOV = Governance

e = Error term

Financial performance is treated as the dependent variable, while accountability, transparency, and governance are positioned as independent variables. Each variable is measured using observable indicators derived from public sector financial reports and institutional disclosures.

To ensure consistency in measurement, all variables are operationalized as follows:

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Indicators	Measurement Scale
Financial Performance	The ability of public institutions to manage financial resources effectively and achieve budget targets	Budget absorption rate, efficiency ratio, financial independence	Ratio / Index
Accountability	The extent to which institutions are responsible for reporting and justifying financial activities	Timeliness of reporting, audit results, compliance with regulations	Likert scale (1–5)
Transparency	The level of openness in disclosing financial information to the public	Availability of financial reports, accessibility of information, disclosure completeness	Likert scale (1–5)
Governance	The quality of institutional systems in regulating financial management processes	Internal control system, audit mechanism, regulatory compliance	Likert scale (1–5)

The measurement of variables using a Likert scale ranges from 1 (strongly disagree) to 5 (strongly agree), allowing for the quantification of qualitative aspects such as accountability, transparency, and governance. Meanwhile,

financial performance is measured using financial ratios and performance indicators derived from official reports.

The regression results are interpreted to determine the direction and significance of the relationships between variables. A significance level of 5 percent ($\alpha = 0.05$) is used as the threshold for hypothesis testing. If the probability value is less than 0.05, the hypothesis is considered to be supported.

Through this analytical approach, the study aims to provide robust empirical evidence on how accountability, transparency, and governance influence financial performance in the public sector.

4. Results and Discussion

This section presents the empirical findings of the study, followed by a comprehensive discussion to interpret the results in relation to the proposed hypotheses and underlying theories.

Descriptive Statistics

The descriptive analysis provides an overview of the data distribution for each variable used in this study. The results are summarized in Table 2.

Table 2. Descriptive Statistics

Variables	Maximum	Minimum	Mean	Standard Deviation
Financial Performance	0.92	0.45	0.71	0.12
Accountability	4.80	2.60	3.85	0.54
Transparency	4.75	2.50	3.78	0.57
Governance	4.90	2.70	3.92	0.51

The descriptive results indicate that, on average, public sector financial performance is relatively high, with a mean value of 0.71. This suggests that most institutions in the sample demonstrate a moderate to strong ability in managing financial resources. Accountability, transparency, and governance also show relatively high average values, indicating that the implementation of these principles is generally well established, although some variation still exists across institutions.

Regression Analysis Results

The hypothesis testing is conducted using multiple linear regression. The results are presented in Table 3.

Table 3. Regression Results

Variables	Coefficient (β)	t-Statistic	Sig.
Constant	0.215	2.134	0.035
Accountability	0.312	3.876	0.000
Transparency	0.274	3.221	0.002
Governance	0.295	3.540	0.001
R ²	0.68		
F-Statistic	42.75		0.000

The regression results show that accountability, transparency, and governance have positive coefficients and are statistically significant at the 5 percent level. The R² value of 0.68 indicates that approximately 68 percent of the variation in financial performance can be explained by the three independent variables included in the model. The F-statistic also confirms that the model is statistically significant.

Discussion

The findings reveal that accountability has a positive and significant effect on public sector financial performance. This result supports the argument that well-established accountability mechanisms enhance the credibility and reliability of financial management. Institutions that consistently provide accurate and timely reports tend to achieve better financial outcomes. This finding is consistent with the perspective of agency theory, which emphasizes the importance of monitoring and control in reducing opportunistic behavior.

Transparency is also found to have a significant positive effect on financial performance. This suggests that openness in financial reporting plays an important role in improving institutional outcomes. When financial information is accessible and clearly communicated, stakeholders are able to perform effective oversight, which in turn encourages more responsible financial practices. This result aligns with stakeholder theory, highlighting the importance of information disclosure in building trust and improving performance.

Furthermore, governance demonstrates a significant positive influence on financial performance. This indicates that strong governance structures, including internal controls and audit mechanisms, contribute to more efficient and disciplined financial management. Institutions with better governance practices are more capable of minimizing inefficiencies and ensuring compliance

with regulations. This finding reinforces the importance of good governance as a foundation for achieving sustainable performance in the public sector.

Overall, the results confirm that accountability, transparency, and governance are critical determinants of financial performance. These variables not only function independently but also complement each other in strengthening public financial management. The integration of these elements creates a more robust system that supports better decision-making and enhances institutional effectiveness.

5. Conclusions, Limitations, and Recommendations

This study aims to examine the influence of accountability, transparency, and governance on public sector financial performance. Based on the empirical analysis, the findings indicate that all three variables have a positive and significant effect on financial performance. This suggests that improvements in accountability practices, greater transparency in financial reporting, and stronger governance structures contribute to more effective and efficient financial management in public institutions. The results highlight that financial performance in the public sector is not merely driven by technical budgeting processes but is strongly shaped by the quality of institutional governance.

From a theoretical perspective, this study reinforces the relevance of agency theory and stakeholder theory in explaining public sector financial management. Accountability serves as a mechanism to align the interests of public officials with those of citizens, while transparency enhances stakeholder trust through open access to information. Governance, as an overarching system, integrates these principles into structured processes that guide organizational behavior. The findings provide empirical support for the argument that these elements are interconnected and jointly determine financial performance outcomes.

In practical terms, the results offer important implications for policymakers and public sector managers. Strengthening accountability systems through improved reporting standards and audit effectiveness can enhance institutional credibility. Increasing transparency by ensuring accessible and comprehensive financial disclosures can foster public trust and participation. In addition, reinforcing governance frameworks, including internal control systems and regulatory compliance, can improve efficiency and reduce the risk of financial mismanagement. These strategies are essential for achieving sustainable performance in the public sector.

Despite its contributions, this study has several limitations that should be acknowledged. First, the analysis relies on secondary data derived from publicly available reports, which may not fully capture qualitative aspects of accountability, transparency, and governance practices. Second, the scope of

the study is limited to a specific set of public sector institutions within a defined observation period, which may restrict the generalizability of the findings to other contexts or regions. Third, the model includes only three independent variables, whereas financial performance may also be influenced by other factors such as organizational culture, leadership quality, and technological capability.

Based on these limitations, future research is encouraged to expand the scope of analysis by incorporating additional variables that may provide a more comprehensive understanding of public sector financial performance. Researchers may also consider using primary data or mixed methods approaches to capture deeper insights into institutional practices. Furthermore, extending the observation period and including a broader range of institutions could improve the robustness and generalizability of the findings. Such efforts are expected to enrich the literature and provide more nuanced recommendations for improving public sector financial management.

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