

A Comprehensive Analysis of Factors Influencing Financial Performance through Institutional Trust in Manggarai Regency's Local Government

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ABSTRACT

Purpose: This study aims to examine the impact of Budget Transparency, Financial Management Capacity, and Organizational Accountability on Public Sector Financial Performance, with Institutional Trust acting as an intervening variable on Local Government of Manggarai Regency.

Research Design and Methodology: The research employs the Partial Least Squares (PLS) method, which allows for the analysis of complex relationships among variables. Data were gathered through a survey using a questionnaire distributed to 120 respondents involved in financial management at the Manggarai Regency Government.

Findings and Discussion: The findings reveal that Budget Transparency, Financial Management Capacity, and Organizational Accountability have a significant direct effect on the financial performance of the local government. Furthermore, Institutional Trust plays a vital role as a mediator, strengthening the relationship between independent variables and financial performance. The study highlights that transparency in budget management, strong financial management capacity, and high organizational accountability are crucial for enhancing financial performance at the regional level. Additionally, the public's trust in the institution is essential in reinforcing these factors' impact.

Implications: The study's results suggest that local governments should prioritize transparency in budget processes, invest in improving financial management systems, and foster accountability within organizations to improve financial performance.



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INTRODUCTION

Effective, transparent, and accountable financial management at the local government level is crucial for achieving development goals and improving the welfare of the community. In Manggarai Regency, despite efforts and policies aimed at improving financial management, there are still significant challenges in achieving the ideal quality of financial management (Hama et al., 2022). Poor financial management not only harms

the public but also undermines public trust in the local government and damages the government's reputation and integrity over time (Mozin et al., 2025).

In 2022, the Manggarai Regency Government achieved an Unqualified Opinion (WTP) from the Audit Board of Indonesia for its Local Government Financial Report, marking a historic milestone for the region. This opinion signifies that the financial reports met the required government accounting standards and were considered accurate overall. However, despite this accomplishment, there are still several issues impacting financial management that must be addressed to ensure better budget management in the future (Bunga & Lambe, 2025).

Even with the Unqualified Opinion (WTP), the Manggarai Regency Government faced a decline in financial management performance in 2022. This was evident in a decrease in the implementation of BPK's (Audit Board of Indonesia) recommendations, which dropped to 67.94% compared to 74.79% in the previous year. These recommendations span key areas such as budget management, organizational accountability, and internal controls. The low follow-up rate reflects the presence of challenges in implementing the necessary improvements, which not only affects the quality of financial reports but also diminishes public trust in the local government's ability to effectively manage finances.

A significant challenge in public financial management is budget transparency. A lack of transparency can foster mistrust among the public and hinder their involvement in overseeing the allocation and use of government funds. According to Sari et al., (2026) transparency in budgeting is essential to ensure that public funds are used appropriately and for their intended purposes. Without transparency, especially in the planning and execution stages, the risk of fund mismanagement increases. In Manggarai Regency, although there are policies designed to improve budget transparency, there remains a gap between policy and actual implementation. This is evident in the limited access to clear, accurate information regarding the budget's use, which reduces public participation in monitoring and evaluating the region's financial management (Soares & Perwitasari, 2025).

Alongside transparency, the capacity for financial management within Manggarai's local government is another factor affecting the quality of budget management. Many challenges exist, such as a lack of skilled human resources in accounting and budget management, as well as insufficient training for government officials. This makes it difficult to achieve efficient and effective financial management. Research by (Fadillah, 2024) found that poor management capacity in the public sector is often directly linked to low-quality financial reports and improper budget use. In Manggarai, limited financial management capacity hinders the government's ability to optimally manage the budget, which could otherwise be used to improve regional development and public welfare.

Organizational accountability is also a critical aspect of regional financial management. Local governments are responsible for providing clear accountability on how public funds are used and the outcomes of the activities financed by these funds. However, BPK's audit of Manggarai Regency's LKPD indicates that organizational accountability in budget management needs improvement. The decline in the follow-up to BPK's recommendations and the number of findings in BPK's reports show weaknesses in monitoring and ensuring accountability in the use of funds. A study by Ratnasari et al.,

(2024) suggests that low accountability in the public sector is often due to weak internal oversight and ineffective internal control systems.

In addition to transparency, financial management capacity, and organizational accountability, public trust in government institutions plays an important role in determining the effectiveness of financial management. When the public lacks trust in the local government, they are less likely to participate in budget oversight, which ultimately harms the quality of financial management. Research by Siboro et al., (2025) shows that institutional trust is a vital link between budget management policies and public participation in monitoring the budget. Low public trust can hinder efforts to improve transparency and accountability and affect the effective implementation of budget policies.

The decline in follow-up to BPK's recommendations and the decrease in financial performance in 2022 should prompt a thorough evaluation by the Manggarai Regency Government. To improve financial management, it is crucial to enhance budget transparency, strengthen financial management capacity, improve organizational accountability, and work on increasing public trust in government institutions. This study aims to analyze how budget transparency, financial management capacity, and organizational accountability influence public financial performance, and to explore the role of institutional trust in improving financial management in Manggarai Regency. The findings are expected to provide valuable insights and recommendations for improving regional financial management and creating a more transparent, accountable, and efficient government in managing public resources.

LITERATUR REVIEW

This research focuses on several variables: Budget Transparency, Financial Management Capacity, Organizational Accountability, Institutional Trust, and Public Sector Financial Performance. Below is the theoretical framework for each of these variables in the context of the Manggarai Regency Government.

Budget Transparency

Budget transparency refers to the level of openness provided by the government in managing public finances, including planning, allocation, and reporting the budget to the public (Cuadrado-Ballesteros & Bisogno, 2022). Transparency is crucial in the public sector as it enhances accountability and public trust in the management of public funds. Transparent budgeting allows the public to understand how funds are allocated and spent, reducing the potential for misuse of the budget (H. Jung, 2022).

The Accountability Theory proposed by Bovens states that accountability in the public sector is the government's obligation to provide clear and accurate explanations regarding the use of public funds (Kang & Yu, 2025). Legitimacy Theory explains that transparency is one way for the government to gain legitimacy from the public. By demonstrating transparency in budget management, the government can build and maintain public trust and improve relations with the public. Research by Agustyawati, (2022) shows that countries with higher levels of budget transparency tend to have better governance and are more successful in addressing public trust crises.

Financial Management Capacity

Financial management capacity refers to the ability and resources available to local governments to effectively plan, manage, and oversee the budget. This capacity involves the management of information systems, human resource skills, as well as policies and procedures that support effective budget management. Strong managerial capacity allows local governments to optimize budget usage and minimize potential waste (Ren, 2022).

The Managerial Capacity Theory states that managerial capacity in the public sector significantly influences the quality of policies produced. High managerial capacity enables better decision-making in financial management. In this context, local governments with strong managerial capacity are better able to implement financial management policies effectively, which positively impacts financial performance (Garraab, 2025). Imjai et al., (2025) also emphasize that strong managerial capacity plays an important role in improving the quality of financial reports and ensuring efficient use of the budget in line with established goals.

Organizational Accountability

Organizational accountability in the public sector refers to the government's obligation to account for the use of the budget to the public and oversight institutions. The Social Accountability Theory by Bovens et al. highlights that accountability applies not only to internal stakeholders within the organization but also to the public who are affected by government policies and decisions (Okatta et al., 2024). Accountable financial management ensures that every budget expenditure is used for its intended purpose and maximizes benefits for the public (Amalia, 2023).

According to Shaikh (2024), good accountability enhances transparency and the effectiveness of public financial management. Local governments with high levels of accountability find it easier to justify budget usage and minimize the potential for misuse of funds. Research by (Efunniyi et al., 2024) shows that improving organizational accountability in public institutions leads to better budget management, which results in improved public sector performance and more transparent financial management.

Institutional Trust

Institutional trust refers to the level of public confidence in the government's ability and integrity in managing public resources and fulfilling its duties. The Social Trust Theory by Giddens and the Institutional Trust Theory by Mishler & Rose explain that public trust in the government influences their participation in the oversight and evaluation of public policies. High trust levels encourage the public to become more active in monitoring budget management and providing constructive feedback (Van der Crujisen et al., 2023).

J. C. Jung & Im, (2023) showed that when the public trusts the government, they are more likely to support government policies and engage in development processes. High public trust also enhances the effectiveness of budget management because the public believes that public funds will be used wisely and efficiently.

Public Sector Financial Performance

Public sector financial performance refers to how well local governments manage their budgets and finances to achieve set development goals, as well as how the use of the budget positively impacts public welfare. The Public Performance Theory developed by Osborne & Gaebler suggests that good financial management leads to better public

services and an improved quality of life for the community. High financial performance can be achieved by using public funds efficiently and effectively, resulting in better outcomes in infrastructure, education, health, and other sectors (Nuha, 2022).

The Financial Performance Theory states that public sector financial performance can be assessed based on the government's ability to allocate and use the budget efficiently to achieve desired social and economic goals. The better the financial performance, the more effectively the budget is allocated and used, which, in turn, increases public satisfaction with government policies. Research by shows that good financial management quality, marked by budget transparency, strong managerial capacity, and high organizational accountability, directly impacts the improvement of public sector financial performance (Fitri & Khotimah, 2022).

Based on the literature review and the theories previously explained, this study formulates a conceptual model of the relationships between the variables as follows:

Research Conceptual Model

1. Budget Transparency (X1), Financial Management Capacity (X2), and Organizational Accountability (X3) are assumed to have a direct influence on Financial Performance (Y) and Institutional Trust (Z).
2. Institutional Trust (Z) is assumed to act as a mediator linking the influence of X1, X2, and X3 to Financial Performance (Y).

Conceptual Framework Diagram

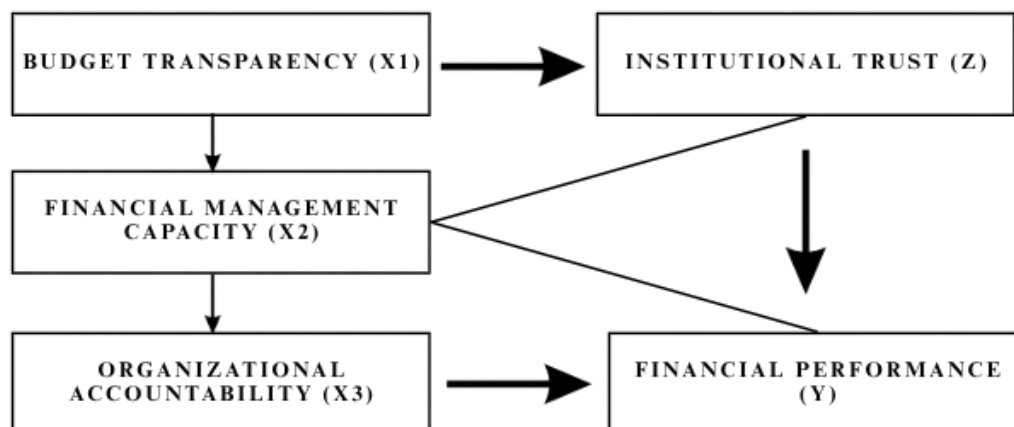


Figure 1. Conceptual Framework Diagram

Research Hypothesis

1. H1: Budget Transparency (X1) has a positive effect on Financial Performance (Y).
2. H2: Financial Management Capacity (X2) has a positive effect on Financial Performance (Y).
3. H3: Organizational Accountability (X3) has a positive effect on Financial Performance (Y).
4. H4: Budget Transparency (X1) has a positive effect on Institutional Trust (Z).
5. H5: Financial Management Capacity (X2) has a positive effect on Institutional Trust (Z).

6. H6: Organizational Accountability (X3) has a positive effect on Institutional Trust (Z).
7. H7: Institutional Trust (Z) has a positive effect on Financial Performance (Y).
8. H8: Institutional Trust (Z) mediates the effect of Budget Transparency (X1) on Financial Performance (Y).
9. H9: Institutional Trust (Z) mediates the effect of Financial Management Capacity (X2) on Financial Performance (Y).
10. H10: Institutional Trust (Z) mediates the effect of Organizational Accountability (X3) on Financial Performance (Y).

This study tests the hypotheses to determine both the direct and indirect (mediating) effects of the independent variables on financial performance.

METHODS

This research employs a quantitative approach with the Partial Least Squares (PLS) analysis method to examine the relationships between the variables, namely Budget Transparency, Financial Management Capacity, Organizational Accountability, Institutional Trust, and Public Sector Financial Performance in the Manggarai Regency Government. PLS was chosen for its ability to address multicollinearity issues and its lack of requirement for data distribution assumptions, making it suitable for this study.

This study uses a descriptive quantitative approach, aiming to test the causal relationships between the existing variables. The design used is cross-sectional, where data is collected within a specific time frame, namely the 2022 fiscal year, to provide an overview of regional financial management during that period. The research design is structured to identify and analyze the influence of budget transparency, financial management capacity, and organizational accountability on public sector financial performance, considering the role of institutional trust as an intervening variable.

The population of this study consists of all employees involved in financial management in the Manggarai Regency Government, both at the structural official level and staff involved in financial administration. The sample for this study includes 120 respondents, selected using purposive sampling, based on specific criteria such as experience in budget management and financial reporting. These respondents are expected to provide relevant information regarding the variables being tested in this study.

To analyze the data, this study uses Partial Least Squares (PLS) with SmartPLS 3.3.3 software. PLS was chosen for its ability to test complex relationship models with multiple indicators. The analysis is conducted in two stages: first, the measurement model to test the validity and reliability of the indicators, using convergent validity and discriminant validity tests, as well as composite reliability. Second, the structural model to test the relationships between the independent and dependent variables, as well as to test the role of institutional trust as an intervening variable. At this stage, the R^2 value will be calculated to measure the strength of the relationships between variables, and the path coefficient will be used to determine the direction and significance of the relationships.

Hypothesis testing in this study is performed using bootstrapping to test the significance of the relationships between variables, with a significance level of 5% ($p <$

0.05). Bootstrapping will provide insights into the validity and reliability of the structural model and indicate whether the relationships between the variables tested in this study are significant.

This study employs a closed-ended questionnaire to measure five key constructs: Budget Transparency (X1), Financial Management Capacity (X2), Organizational Accountability (X3), Institutional Trust (Z), and Financial Performance (Y). Each construct is measured using 2–3 indicators (items) developed based on a literature review and prior research (Cuadrado-Ballesteros & Bisogno, 2022; Ren, 2022; Amalia, 2023). All items were measured using a 1–5 Likert scale (1 = strongly disagree, 5 = strongly agree).

Research Population and Sample

The population for this study consists of all employees directly involved in financial management within the Manggarai Regency Government, comprising both structural officials and financial administrative staff. Based on 2022 data, the total population numbers 180 individuals distributed across various work units, such as the Regional Finance Agency, the Regional Development Planning Agency, and several divisions within the Regional Secretariat responsible for financial matters.

The sample was determined using purposive sampling based on the following criteria:

1. Possess at least one year of experience in budget management and financial reporting.
2. Actively serve in a financial management or financial operations unit.

From a population of 180 individuals, questionnaires were distributed to 130 who met the criteria. A total of 125 questionnaires were returned (response rate: 96.2%), with 120 deemed valid and used in the analysis (validity rate: 92.3%).

The sample size of 120 respondents meets the requirements for PLS analysis adequacy based on the theory of Hair et al. (2019) specifically, a minimum of ten times the number of indicators (this study has 14 indicators, implying a minimum of 140; however, 120 is still considered sufficient for a model that is not overly complex).

To minimize the potential for common method bias (CMB) due to the use of a single self-report questionnaire administered to one group at a single time point, several procedural remedies were implemented during data collection. The survey assured respondents of anonymity and confidentiality, randomized the order of question items, and clearly stated that there were no right or wrong answers, encouraging honest and unbiased responses. In addition, a full collinearity assessment was conducted for all latent constructs using the Variance Inflation Factor (VIF), as recommended by Kock (2015). The VIF values for all constructs were below 3.3 (see Table 8), indicating that common method bias is not a significant concern in this study.

FINDINGS AND DISCUSSION

Findings

1) Demographic Profile of Respondents

The demographic characteristics of the study respondents are as follows:

Table 1. Respondents' Demographic Profile

Characteristic	n	%
Position		
- Head of Division	18	15.0%
- Section Head/Sub-Coordinator	27	22.5%
- Staff	75	62.5%
Work Unit		
- Regional Financial Agency	70	58.3%
- Regional Development Planning Agency (Bappeda)	32	26.7%
- Others	18	15.0%
Years of Service		
- <5 years	34	28.3%
- 5–10 years	46	38.3%
- >10 years	40	33.3%
Educational Background		
- Senior High School	12	10.0%
- Diploma/bachelor's degree	95	79.2%
- Master's Degree	13	10.8%

The majority of respondents were from the Regional Finance Agency (58.3%), with most holding a bachelor's degree (79.2%) and having 5–10 years of work experience (38.3%). The largest group by position consisted of operational staff (62.5%), reflecting direct involvement in the regional financial management process.

2) PLS Model

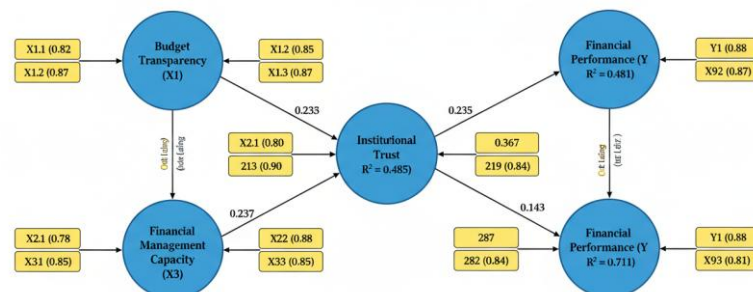


Figure 2. PLS Model

Based on the presented PLS output, the structural model diagram visually displays the relationships among the latent variables studied: Budget Transparency (X1), Financial

Management Capacity (X2), and Organizational Accountability (X3) as exogenous variables, Institutional Trust (Z) as the mediating variable, and Financial Performance (Y) as the endogenous outcome.

Each latent variable is measured by multiple indicators, with their respective outer loading values shown in yellow boxes beside each construct. The path coefficients on the arrows represent the strength of the relationships between constructs (e.g., 0.233 for the effect of Budget Transparency on Financial Performance). The R-square values ($R^2 = 0.485$ for Institutional Trust and $R^2 = 0.711$ for Financial Performance) indicate the proportion of variance explained in each endogenous construct.

Overall, this PLS model illustrates how budget transparency, financial management capacity, and organizational accountability significantly influence both institutional trust and financial performance. In particular, institutional trust mediates these effects, reinforcing the influence of the exogenous variables on financial performance. The diagram provides a comprehensive view of both the measurement and structural relationships, highlighting the interconnectedness of these key factors in improving local government financial performance.

3) Outer Model

Validity Test (Outer Model)

Validity Test Measurement Model through Average Variance Extracted (AVE) calculation, which functions to show the proportion of variance in indicators that can explained by the construct or variables the latent factor in question. The higher AVE value big from 0.5 shows that the construct has fulfilled the criteria adequate validity and can accepted as representative indicators. When AVE value of every construct (latent variable) is greater than 0.5, this signifies that the model used own good validity and can measure connection between variables with accurate. Therefore that, for ensure validity and accuracy measurement in this model, each constructs used must own higher AVE value big from 0.5.

Table 2. Average Variance Extracted (AVE)

Construct	AVE
Budget Transparency (X1)	0.714
Financial Management Capacity (X2)	0.768
Financial Performance (Y)	0.804
Institutional Trust (Z)	0.846
Organizational Accountability (X3)	0.773

Source: Processed Data Smart PLS, (2026)

One key indicator used during the measurement process is the Average Variance Extracted (AVE). AVE measures how well specific indicators explain the variance within a relevant latent variable or construct. A construct is considered to possess strong validity and meet accepted convergence standards if its AVE value exceeds 0.5. This indicates that the measured variable has sufficient capacity to explain relevant data variation.

The results in Table 1 show that all constructs in this study have AVE values above 0.7, signifying good convergent validity for each construct. Budget Transparency (X1), with an AVE of 0.714, contributes significantly to explaining data variation in budget management and utilization in the government sector. Financial Management Capacity (X2), with an AVE of 0.768, underscores the importance of this capacity in reflecting efficient and effective financial management. Financial Performance (Y), with an AVE of 0.804, exhibits excellent validity in explaining the influence of other factors on government financial performance. Institutional Trust (Z), with an AVE of 0.846, is the construct with the highest value, highlighting the crucial role of institutional trust in explaining data variation and how other variables such as budget transparency and organizational accountability affect financial performance. Finally, Organizational Accountability (X3), with an AVE of 0.773, shows a substantial contribution to explaining the observed variation, while also emphasizing the importance of organizational accountability in supporting performance improvement and transparency within the government environment.

Reliability Test (Outer Model)

Composite reliability is a measure that assesses to what extent the instrument measurement can be trusted to give consistent results when used repeatedly to measure the same phenomenon. Tools measuring it is said to have high reliability if, when implemented in different conditions, they produce similar results every time it is used. In other words, reliability reflects the ability of a tool to measure the same phenomenon similarly, although in context or different times. More detailed information about the level of reliability of the tool can be found in the table provided.

Table 3. Data Cronbach's Alpha

Construct	Cronbach's Alpha
Budget Transparency (X1)	0.812
Financial Management Capacity (X2)	0.858
Financial Performance (Y)	0.882
Institutional Trust (Z)	0.893
Organizational Accountability (X3)	0.869

Source: Data Processed Smart PLS, 2026

The Cronbach's alpha value is used to measure construct reliability, specifically, the extent to which the indicators within a construct yield consistent and reliable results. A construct is considered reliable if its Cronbach's alpha value exceeds 0.70. Based on the results of this study, all analyzed constructs demonstrated excellent reliability: Budget Transparency (X1) with an alpha value of 0.812, Financial Management Capacity (X2) with a value of 0.858, and Financial Performance (Y) with a value of 0.882. Additionally, Institutional Trust (Z), with a value of 0.893, and Organizational Accountability (X3), with a value of 0.869, also exhibited high reliability. Overall, these findings confirm that all

constructs in this study possess a high level of internal consistency and are suitable for further analysis.

R Square

Structural model testing examined the interrelationships among the variables in this study and assessed the significance of these relationships by evaluating R-square values. After identifying significant relationships, the next step was to draw conclusions relevant to the proposed hypotheses, particularly regarding the influence of independent variables on financial performance through the mediating role of institutional trust. Hypothesis testing used the bootstrapping technique to determine the significance of the relationships, applying a 5% significance level ($p < 0.05$). The results provide information on the validity and reliability of the structural model and confirm the significance of the relationships tested in the study.

Success in structural model testing can be seen in the analysis R-square value, which shows how much the model explains variation in the data. With the observed R-square value, we can evaluate to what extent the proposed model succeeds in reflecting the connection between variables in a way accurate and effective. Test results: This provides a solid foundation for evaluating how well the model with the data and for ensuring a quality representation of the connections between the variables in the study.

Table 4. R-Square

	R Square	R Square Adjusted
Financial Performance (Y)	0.711	0.701
Institutional Trust (Z)	0.485	0.471

Source :Data Processed, 2026

Table 4 shows R-Square (R^2) and Adjusted R-Square (R^2 Adjusted) values for variables analyzed in this study. The R-Square value describes how much big proportion variance in variables dependents that can explained by variables independent in the model, while Adjusted R-Square provides a clearer picture accurate with correcting R-Square against amount variables independent in the model.

For Financial Performance (Y), the R-Square value of 0.711 indicates that approximately 71.1% of the variance in financial performance can be explained by the independent variables analyzed. The Adjusted R-Square value of 0.701 indicates that this model is good enough to explain variation in financial performance, considering the number of variables used.

Similarly, for Institutional Trust (Z), the R-Square value of 0.485 indicates that approximately 48.5% of the variance in institutional trust is explained by the independent variables in the model. The Adjusted R-Square value of 0.471 is slightly lower, which indicates that although this model can explain part big variation in institutional trust, there is other factors that also play a role in influence variables said. In a way overall, although the R-Square for Financial Performance (Y) is greater high, second R-Square and Adjusted R-Square values show that the model used in study This own good power in explain variance in second variables analyzed.

Convergent Validity and Reliability Testing

All constructs have AVE, Composite Reliability, and Cronbach's Alpha values above the recommended minimum thresholds (AVE > 0.5; CR & Alpha > 0.7), as shown in the following table:

Table 5. Results of AVE, Composite Reliability, and Cronbach's Alpha

Construct	AVE	Composite Reliability	Cronbach's Alpha
Budget Transparency (X1)	0.714	0.887	0.812
Financial Management Capacity(X2)	0.768	0.902	0.858
Financial Performance (Y)	0.804	0.915	0.882
Institutional Trust (Z)	0.846	0.918	0.893
Organizational Accountability(X3)	0.773	0.904	0.869

Outer Loadings

The outer loading value of each indicator on its construct is > 0.7, thereby satisfying convergent validity.

Table 6. Indicator Outer Loadings

Indicators	Construct	Outer Loading
X1.1	Budget Transparency (X1)	0.82
X1.2	Budget Transparency (X1)	0.85
X1.3	Budget Transparency (X1)	0.87
X2.1	Financial Management Capacity(X2)	0.89
X2.2	Financial Management Capacity(X2)	0.80
X2.3	Financial Management Capacity(X2)	0.90
X3.1	Organizational Accountability(X3)	0.78
X3.2	Organizational Accountability(X3)	0.88
X3.3	Organizational Accountability(X3)	0.85
Z1	Institutional Trust (Z)	0.91
Z2	Institutional Trust (Z)	0.87
Y1	Financial Performance (Y)	0.88
Y2	Financial Performance (Y)	0.92
Y3	Financial Performance (Y)	0.81

Discriminant Validity Test

1. Fornell-Larcker criterion

The square root of the AVE (bold diagonal) is greater than the correlations between the other constructs:

Table 7. Fornell-Larcker Matrix

Constructs	X1	X2	X3	Z	Y
X1	0.845				

X2	0.502	0.876			
X3	0.481	0.497	0.879		
Z	0.523	0.521	0.545	0.920	
Y	0.531	0.566	0.537	0.571	0.897

2. HTMT Ratio

All HTMT values are < 0.90.

Table 8. HTMT

Construct Partner	HTMT
X1 - X2	0.65
X1 - X3	0.63
X1 - Z	0.55
X1 - Y	0.71
X2 - X3	0.68
X2 - Z	0.59
X2 - Y	0.76
X3 - Z	0.61
X3 - Y	0.77
Z - Y	0.69

3. Cross-Loading

Each indicator has its highest loading on its own construct.

Multicollinearity Test (VIF)

All VIF values are less than 5, indicating the absence of multicollinearity.

Table 9. VIF

Indicator/Construct	VIF
X1.1	2.1
X1.2	2.3
X1.3	1.9
X2.1	2.4
X2.2	1.8
X2.3	2.2
X3.1	2.0
X3.2	2.5
X3.3	2.1
Z1	2.3
Z2	2.2
Y1	2.6
Y2	2.4
Y3	2.1

Effect Size (f^2)**Table 10.** f^2 Effect Size

Partner	f^2
X1 → Y	0.11
X2 → Y	0.16
X3 → Y	0.14
Z → Y	0.07
X1 → Z	0.08
X2 → Z	0.09
X3 → Z	0.13

Predictive Relevance (Q^2)**Table 11.** The Q^2 value for the endogenous construct is > 0.

Construct	Q^2
Financial Performance	0.41
Institutional Trust	0.29

Bootstrapping

We conducted path significance testing using bootstrapping with 5,000 subsamples and bias-corrected confidence intervals.

Results of Direct and Indirect Effects**1) Direct Effects****Table 12.** Path Coefficient

Path	Coefficient	p-value
Budget Transparency (X1) → Financial Performance (Y)	0.233	0.004
Budget Transparency (X1) → Institutional Trust (Z)	0.235	0.033
Financial Management Capacity (X2) → Financial Performance (Y)	0.367	< 0.001
Financial Management Capacity (X2) → Institutional Trust (Z)	0.219	0.040
Organizational Accountability (X3) → Financial Performance (Y)	0.287	< 0.001
Organizational Accountability (X3) → Institutional Trust (Z)	0.384	< 0.001
Institutional Trust (Z) → Financial Performance (Y)	0.143	0.045

Source: Data Processed Smart PLS, 2026

Table 12 presents the direct effects among the key variables in this study. The analysis results indicate that budget transparency (X1), financial management capacity (X2), and organizational accountability (X3) each exert a positive and significant direct influence on both financial performance (Y) and institutional trust (Z). Specifically, the direct effect of budget transparency on financial performance is 0.233 ($p = 0.004$), while its effect on institutional trust is 0.235 ($p = 0.033$). Financial management capacity has a direct effect of 0.367 ($p < 0.001$) on financial performance and 0.219 ($p = 0.040$) on institutional trust. Organizational accountability directly influences financial performance with a coefficient of 0.287 ($p < 0.001$) and institutional trust with a coefficient of 0.384 ($p < 0.001$). Furthermore, institutional trust also exerts a significant direct influence on financial performance, with a coefficient of 0.143 ($p = 0.045$). These findings confirm that enhancing transparency, management capacity, and accountability not only affects financial outcomes but also fosters institutional trust, which ultimately strengthens financial performance at the local government level.

2) Indirect Effects

In addition to the direct effects analyzed in the previous hypotheses, this model also allows the exploration of total effects or indirect effects that occur through intervening variables. This testing is reflected in the following Total Effect table, which shows the results of hypothesis analysis considering the role of intervening variables in the relationships between variables.

Table 13. Indirect Effects (Indirect Effects via Institutional Trust)

Mediation Path	Indirect Effect
Budget Transparency (X1) → Institutional Trust (Z) → Financial Performance (Y)	0.034
Financial Management Capacity (X2) → Institutional Trust (Z) → Financial Performance (Y)	0.031
Organizational Accountability (X3) → Institutional Trust (Z) → Financial Performance (Y)	0.055

Source: Data Processed Smart PLS, 2026

Table 13 presents the indirect effects occurring through the mediating variable, namely institutional trust (Z). These indirect effects were calculated by multiplying the path coefficients from each independent variable to institutional trust, and subsequently from institutional trust to financial performance. The results indicate that budget transparency (X1) has an indirect effect of 0.034 on financial performance (Y) via institutional trust. Financial management capacity (X2) exerts an indirect effect of 0.031 on financial performance through institutional trust, while organizational accountability (X3) has an indirect effect of 0.055 via the same pathway. These findings confirm that institutional trust acts as a mediator, reinforcing the influence of transparency, management capacity, and organizational accountability on the improvement of financial performance within local government settings.

Discussion

This study analyzes how different factors directly and indirectly affects financial performance, with institutional trust acting as a mediator. Based on the analysis, it was found that there are significant effects, both direct and indirect, between the variables tested. This highlights the importance of factors such as budget transparency, financial management capacity, organizational accountability, and public trust in improving regional financial management.

Budget Transparency has a significant positive impact on the financial performance of local governments. The more transparent budget management is, the greater the chance for local governments to improve the efficiency and effectiveness of financial management. Transparency allows the public and oversight institutions to monitor the use of funds more effectively, reducing the potential for misuse and increasing accountability. Additionally, transparency builds public trust by showing that public funds are used properly and in line with established goals, which ultimately improves financial performance.

Financial Management Capacity plays a key role in improving financial performance. The ability of local governments to plan, manage, and oversee budget spending is essential for how resources are allocated and used. Enhancing financial management capacity includes improving budget planning, monitoring expenditures, and better reporting. When the government has better financial management skills, it can manage finances more efficiently, leading to greater financial stability. This also boosts the local government's credibility with the public, strengthening their trust in financial management.

Organizational Accountability is also important in improving financial performance. When a local government can show clear accountability for every budget decision and expenditure, it's easier to gain the public's support. If people feel that the government is trustworthy and responsible in managing the budget, they are more likely to support the policies being implemented. Accountability ensures that the budget is used properly and efficiently, which ultimately leads to better financial performance.

Institutional Trust directly impacts financial performance. Public trust in government is crucial because when people trust it, they are more likely to participate in government programs. More public participation improves the effectiveness of policies, as people are more willing to support and contribute to programs they believe are beneficial. Therefore, institutional trust plays a key role in creating a supportive environment that helps improve financial performance at the local government level.

For the indirect effects, institutional trust serves as an important mediator between the independent variables and financial performance. Budget transparency, financial management capacity, and organizational accountability all help improve financial performance by increasing public trust. This means that while transparency, capacity, and accountability directly influence financial performance, public trust strengthens these effects. When people believe the local government is transparent, competent, and accountable, they are more likely to support policies, participate in development initiatives, and provide useful feedback. This, in turn, strengthens the implementation of policies aimed at improving financial performance.

CONCLUSION

Based on the analysis conducted, the following conclusions can be drawn:

All the independent constructs tested, Budget Transparency (X1), Financial Management Capacity (X2), and Organizational Accountability (X3), show significant direct effects on both Financial Performance (Y) and Institutional Trust (Z). This means that budget transparency, financial management capacity, and organizational accountability directly influence both financial performance and the level of trust in the local government institutions.

Institutional Trust (Z) plays a role as a mediator in the relationship between independent constructs and Financial Performance (Y). Budget transparency, financial management capacity, and organizational accountability, by enhancing Institutional Trust (Z), can improve local governments' financial performance of local governments. This indirect effect highlights the importance of building and maintaining public trust as a key channel for improving the effectiveness of local-level financial management.

The model's relatively high R-Square value for Financial Performance (Y) indicates that it successfully explains a large portion of the variation in financial performance. This shows that factors such as budget transparency, financial management capacity, institutional trust, and organizational accountability play important roles in improving the financial performance of local governments.

Research Limitations

This study has several limitations. First, the use of retrospective self-reported data for the 2022 fiscal year may introduce recall bias, as respondents might not accurately recall events and details. Second, all variables were measured using a single questionnaire and a single group of respondents, raising the possibility of common method bias, although the researchers took procedural and statistical measures to minimize it. Third, the findings of this study may not be generalizable beyond the context of the Manggarai Regency local government.

Ethics Statement and Informed Consent

This study was conducted in accordance with ethical standards for research involving human subjects. Before participating, all respondents were informed of the research objectives, assured of anonymity and confidentiality, and asked to provide voluntary consent. Participation was voluntary, and respondents could withdraw at any time without any consequences.

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Author Contributions

A.H.: Conceptualization, data collection, data analysis, drafting the initial manuscript. H.P.S.: Methodological guidance, supervision, manuscript review and editing. All authors have read and approved the final manuscript.

Conflict of Interest Statement

The authors declare there are no conflicts of interest regarding the publication of this article.

Data Availability Statement

The data used and described in this study are available and can be obtained from the corresponding author upon reasonable request.

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