
The Effectiveness of Regional Capital Participation in Regionally-Owned Enterprises: *Principal-Agent Analysis* of District Dividend Contributions

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ABSTRACT

This study aims to analyze the effectiveness of regional capital participation in Regionally Owned Enterprises (BUMD) in increasing dividend contributions to Local Own-Source Revenue (PAD) of Lebak Regency in 2025 through the perspectives of Principal-Agent Theory and Public Value Governance. The study is motivated by the continued high fiscal dependence of local governments on central government transfers, while the contribution of BUMD dividends to local revenue remains relatively low. This research employs a descriptive qualitative approach supported by quantitative data, with data collected through documentary study and document analysis of regional financial reports, capital participation data, BUMD dividend reports, and related policy documents. The low level of effectiveness is influenced by agency problems, weak governance, limited operational capacity, insufficient institutional legitimacy and support, and the still limited public value generated by BUMD. Therefore, strengthening Good Corporate Governance (GCG), performance-based monitoring, business restructuring, and more measurable dividend targets is necessary so that regional capital participation can contribute more effectively to local revenue and public value creation.

Keywords: Regional Capital Participation, Regionally Owned Enterprises (BUMD), Principal-Agent, Dividends, Local Own-Source Revenue (PAD), Public Value Governance

1. INTRODUCTION

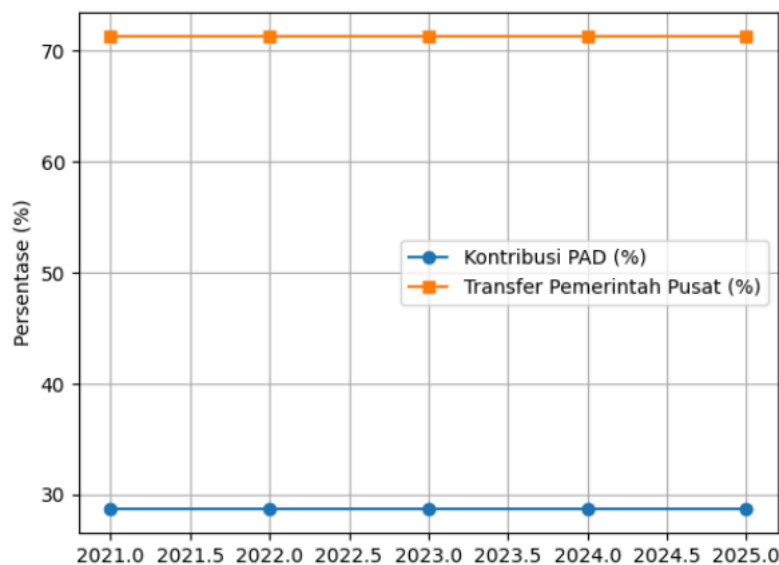
In recent years, regional fiscal management in Indonesia has faced increasing pressure due to limited budgetary space, increasing public spending needs, and demands for efficiency in regional governance. Regional governments are required to not only rely on transfer funds from the central government, but also to strengthen their fiscal capacity by optimizing Regional Original Revenue (PAD) sources. In this context, strengthening PAD is a crucial agenda for achieving fiscal independence and strengthening regional financial support for development and public services (OECD, 2019; World Bank, 2020; DJPK Kemenkeu, 2024).

Structurally, Indonesia's regional financial system still exhibits a high level of dependence on central government transfers. Despite more than two decades of regional autonomy, many regions have yet to build a strong fiscal base through local revenue (PAD). This situation limits regional policy flexibility, particularly when there are transfer policy adjustments, economic slowdowns, or national fiscal pressures. Therefore, regional governments need to develop more

sustainable strategies to expand and optimize revenue sources under their control (Bahl, Bird, & Martinez-Vazquez, 2016; OECD, 2021; BPS, 2024).

To clarify the condition of regional fiscal independence nationally, the following is Graph 1, which shows the comparative trend between Regional Original Income (PAD) And Transfer revenue from the central government over the past five years. This graph serves as a macro-level illustration to show the position of PAD within the structure of regional revenues in Indonesia, and also serves as a basis for understanding the importance of strengthening more independent revenue sources at the regional level.

Graph 1.
PAD Contribution to Central Government Transfers in the Last 5 Years



Source : Processed from various sources (BPS, DJPK Kemenkeu, LKPD), (2025)

Based on Graph 1, data from 2021 to 2025, the contribution of Regional Original Revenue (PAD) to total regional revenue nationally remained relatively stagnant at around 28.7%, while transfer revenue from the central government remained dominant at around 71.3%. This pattern indicates that over the past five years there has been no significant structural change in regional fiscal independence, with regions' ability to optimize PAD sources remaining limited. The dominance of central transfers reflects the high fiscal dependence of regional governments on the central government and indicates the need for more innovative and sustainable policy strategies to strengthen the PAD base to support regional autonomy and financial sustainability.

One instrument that normatively has strategic potential in supporting PAD is the Regionally-Owned Enterprise (BUMD). BUMD are established not only to carry out economic and social service functions, but also to provide financial contributions to the region through dividends as part of the results of managing separated regional assets. Within this framework, regional capital participation in BUMD should be understood as a public investment aimed at generating measurable economic benefits, strengthening the region's fiscal position, and encouraging the creation of public value. However, in practice, not all regional capital participation is able to produce comparable business performance and dividend contributions (OECD, 2015; G20/OECD, 2023; OECD, 2024; World Bank, 2024).

This issue becomes increasingly important when local governments continue to invest in regionally-owned enterprises (BUMD) without consistently seeing tangible improvements in

economic outcomes. Conceptually, regional equity participation is a transfer of public resources to government-owned business entities with the expectation of generating returns in the form of profits, dividends, economic services, or other public benefits. However, when the disbursed capital is not accompanied by proportional returns, fundamental questions arise regarding the effectiveness of regional equity participation, both in terms of governance, accountability, and fiscal benefits for local governments (OECD, 2015; OECD, 2024; World Bank, 2024).

This condition is relevant to be seen in Lebak Regency in 2025, where the local government has invested a number of capital in several Regionally-Owned Enterprises (BUMD), namely PT BPR Lebak Sejahtera (Perseroda), PT LKM Rangkasbitung, Perumdam Tirta Kalimaya, and PT Lebak Niaga Perseroda. Based on available data, the total capital participation of the Lebak Regency Government until 2025 reached Rp188,141,886,550, but the dividend returned to the local government was only Rp2,699,869,858. Furthermore, the contribution of the results of the management of separated regional assets to the Regional Original Income (PAD) of Lebak Regency in 2025 was only around 1.03%, much smaller than the contribution of Regional Taxes and Regional Retributions. This fact shows that empirically, the contribution of BUMD to strengthening regional fiscal is still relatively limited (LHE Inspectorate of Lebak Regency, 2026; Economic Section of Lebak Regional Secretariat, 2026).

A closer look at the disparity between large capital investments and small dividends indicates a problem not solely related to capital size, but also to operational capacity, governance quality, oversight, business efficiency, and the institutional design of the relationship between local governments and regionally-owned enterprises (BUMD). Some BUMDs are able to pay dividends, while others have not yet generated any results despite receiving substantial capital. This situation indicates that regional capital investment does not automatically guarantee successful economic performance for BUMDs, necessitating a more in-depth analysis of how the relationship between ownership and management of public capital is implemented (OECD, 2022; Sidki, Boerger, & Boll, 2024; Kanyongo & Lipunga, 2024).

From a theoretical perspective, this issue can be explained through *the Principal-Agent theory*, which positions the local government as the principal and the Regionally-Owned Enterprises (BUMD) as the agent. In this relationship, the local government delegates resources and management mandates to the BUMD with the expectation that the BUMD will generate economic benefits aligned with the owner's objectives. However, this type of delegation relationship is highly vulnerable to issues of goal incongruence, information asymmetry, agency costs, and weak performance monitoring and accountability. Therefore, the low dividend contribution from BUMD can be interpreted not only as a business issue but also as a governance issue and the effectiveness of the relationship between public capital owners and business managers (Eisenhardt, 1989; Schillemans & Bjurström, 2020; Sultan, 2024).

In addition to using *the Principal Agent perspective*, this study also utilizes the *Public Value Governance (PVG) approach* to broaden the perspective on the effectiveness of regional equity participation. In this approach, the success of a regionally-owned enterprise (BUMD) is not solely measured by profits or dividends, but also by its ability to create public value, gain legitimacy and institutional support, and be supported by adequate operational capacity. Thus, regional equity participation is positioned not only as a financial investment instrument but also as a public policy that should generate benefits for local governments and the broader community (Bryson, Crosby, & Bloomberg, 2014; Bryson, Crosby, & Stone, 2015; Geuijen et al., 2017; Virtanen & Vakkuri, 2024).

Several previous studies generally discuss regionally-owned enterprises (BUMD) from the perspective of financial performance, *Good Corporate Governance*, the role of BUMD in public services, or their contribution to Regional Original Revenue (PAD). On the other hand, research on regional equity participation also tends to focus on legal-formal aspects, government accounting, or administrative evaluation of budget use. However, studies that specifically link regional equity participation, dividend contributions, and *principal-agent relationships* at the district-level BUMD are still relatively limited, especially those read through a combination of *the Principal-Agent* and

Public Value Governance perspectives simultaneously (OECD, 2015 ; OECD, 2024; World Bank, 2024).

Unlike previous studies, this study offers novelty *by* placing the effectiveness of regional equity participation as the primary analytical point in assessing the performance of regionally-owned enterprises (BUMD), rather than merely the company's overall performance. This study not only assesses whether BUMDs generate profits but also examines the extent to which the allocated public capital is actually returned in the form of dividends and fiscal benefits to the region. Furthermore, this study integrates two complementary theoretical approaches: *Principal-Agent Theory* to examine the relationship between delegation and accountability, and *Public Value Governance* to assess the public benefits generated by such equity participation. Thus, this study seeks to fill a research gap in the study of regional BUMDs, particularly regarding the effectiveness of regional public investment (Bryson, Crosby, & Bloomberg, 2014; Geuijen et al., 2017; OECD, 2024).

Empirically, this research is also important because it provides a more measurable understanding of the position of regionally-owned enterprises (BUMD) within the regional financial structure of Lebak Regency. In a situation where local governments face fiscal constraints and demands for increased local revenue (PAD), every equity participation policy must be accountable not only from a procedural perspective but also in terms of outcomes *and* fiscal benefits. Therefore, evaluating the effectiveness of regional equity participation is crucial to assess whether BUMDs truly function as instruments for strengthening the regional economy or remain a fiscal burden that has not yet provided adequate returns (G20/OECD, 2023; OECD, 2024; World Bank, 2024).

Based on this background, the problem formulation in this study is how the effectiveness of regional capital participation in Regional Owned Enterprises (BUMD) of Lebak Regency in 2025 when analyzed through the perspective of *Principal Agent and Public Value Governance*, and to what extent the capital participation contributes to dividends and Regional Original Income (PAD). In line with that, the purpose of this study is to analyze the relationship between regional capital participation and BUMD dividend contributions, explain the forms of *principal agent problems* that affect the effectiveness of capital participation, and assess the effectiveness of capital participation through the dimensions of fiscal contribution, public value, legitimacy and institutional support, and operational capacity of BUMD of Lebak Regency until 2025.

2. LITERATURE REVIEW

Regionally-Owned Enterprises (BUMD) are a strategic instrument for regional governments to encourage local economic growth, provide public services, and generate revenue for the region through dividends as part of the management of separated regional assets. In practice, regional capital participation in BUMD is not only understood as a financing policy, but also as a form of public investment that demands economic accountability and good governance. The governance literature on government-owned enterprises shows that the effectiveness of state/regional investment is largely determined by clarity of ownership objectives, professional management, and the company's ability to generate balanced economic and public benefits. *The OECD* (2015) emphasizes that governments need a clear *ownership policy* to define the reasons, objectives, and expectations for ownership of public enterprises, while *the OECD* (2024) reinforces that state/regional-owned enterprises must be managed professionally, transparently, and accountably to remain relevant as development instruments and fiscal contributors. This is also in line with *the G20/OECD* (2023) which places transparency, accountability, board effectiveness, and results-based oversight as core elements in public sector corporate governance, as well as with *the World Bank's findings* (2024) which show that weaknesses in governance and ownership functions are often the cause of low fiscal contributions of government-owned companies.

In explaining the relationship between local governments and regionally-owned enterprises (BUMD), *the Principal-Agent theory* serves as a relevant foundation because it positions local governments as the principals providing capital and mandates, while BUMDs act as agents authorized to manage these resources. In this relationship, the effectiveness of equity participation is greatly influenced by the principal's ability to set goals, design incentives, monitor, and hold the agent accountable for performance. Recent literature indicates that the issues of goal incongruence, information asymmetry, and agency costs remain major challenges in public organizations and state-owned/regional-owned enterprises. A study by *the OECD* (2024) emphasized that weak separation of roles between owners, supervisors, and management often reduces the effectiveness of public enterprises, while *the G20/OECD* (2023) emphasized the importance of checks and balances between stakeholders, boards, and management to ensure objective monitoring of company performance. These findings align with the argument that weak governance has the potential to cause equity participation to become a passive investment that does not generate proportional returns for local governments. In the context of BUMD, this theory is very relevant to explain why additional capital is not always directly proportional to increased profits or dividends, especially when the incentive structure, supervision, and performance evaluation have not been designed effectively.

From a regional financial perspective, the effectiveness of equity participation in regionally-owned enterprises (BUMD) can be measured through their fiscal contribution to Regional Original Income (PAD), particularly through dividends. Dividends are an important indicator because they represent *the return on public investment*, namely the extent to which allocated public capital is returned in the form of measurable economic benefits to the region. The literature on government-owned enterprises (BUMD) indicates that the financial performance of public enterprises is significantly influenced by the quality of governance, the effectiveness of board oversight, internal control systems, and operational capacity. *The OECD* (2024) emphasizes the importance of results-based performance monitoring, while *the World Bank* (2024) indicates that weak managerial capacity and internal controls often hinder the fiscal contributions of government-owned enterprises. More specifically, recent research on state-owned enterprise governance also indicates that *board effectiveness*, *internal control*, and *strategic oversight* are closely related to financial performance and efficiency. Therefore, low or high BUMD dividends cannot be interpreted solely as a result of capital size, but also as a reflection of the quality of governance and the organization's ability to manage the economic mandate assigned by the local government.

In addition to using *the Principal Agent perspective*, this research is also supported by *the Public Value Governance (PVG) approach* to understand that the success of a Regionally-Owned Enterprise (BUMD) is not solely measured in terms of financial profits, but also by its ability to create public value for the government and society. In this approach, public and semi-public organizations are viewed as instruments for creating collective benefits, so the effectiveness of equity participation must be interpreted through a combination of fiscal contributions, public value, institutional legitimacy and support, and operational capacity. *PVG* literature emphasizes that public value does not arise solely from organizational activities, but from tangible results that can be felt by stakeholders. The study by Geuijen et al. (2017) shows that public organizations can only create public value if they are able to convert resources into relevant outcomes, while recent literature in public governance emphasizes that measurable results, institutional legitimacy, and implementation capacity are the main prerequisites for creating sustainable public value. Thus, *the PVG approach complements the Principal-Agent theory* by expanding the analytical focus, from mere delegation and control relations to a more substantive question, namely whether regional equity participation actually produces the expected economic and public benefits.

Based on these various studies, this study positions the effectiveness of regional capital participation in Regionally-Owned Enterprises (BUMD) as an issue at the intersection of public ownership governance, principal-agent relationships, fiscal performance, and public value creation.

In other words, regional capital participation cannot be assessed solely on the basis of legality and nominal investment, but must also be measured by the extent to which BUMDs are able to generate dividends, strengthen local revenue (PAD), obtain institutional support and legitimacy, and demonstrate adequate operational capacity. This literature review demonstrates that there is still significant research potential, particularly at the regional BUMD level, as most international literature focuses more on national-level *state-owned enterprises (SOEs)*. Therefore, research on Lebak Regency's BUMD in 2025 is relevant in providing empirical contributions regarding how regional public capital is managed, how the relationship between local governments and BUMDs occurs in practice, and the extent to which such investments truly function as instruments for increasing Regional Original Income (PAD) and creating regional public value.

3. RESEARCH METHOD

This study uses a descriptive qualitative approach as proposed by Steven J. Taylor and Robert Bogdan (2016), supported by quantitative data to analyze the effectiveness of regional capital participation in the Regionally-Owned Enterprises (BUMD) of Lebak Regency in 2025 from the perspective of *Principal Agent and Public Value Governance*. This approach was chosen because the study aims to comprehensively understand the relationship between the amount of regional capital participation, dividend contributions generated by BUMD, as well as governance factors and institutional capacity that influence the effectiveness of regional public capital management. The descriptive qualitative approach allows researchers to examine the meaning, context, and dynamics of the relationship between the local government as the principal and BUMD as the agent, as well as examine the extent to which regional capital participation is able to create public value, institutional legitimacy, and adequate operational capacity in BUMD management (Creswell, 2014). The research analysis focused on effectiveness variables which include the dimensions of *Fiscal Contribution to Local Own-Source Revenue* (fiscal contribution to Regional Original Income (PAD), public value, legitimacy and institutional support, and operational capacity in the management of Lebak Regency's BUMD.

Data collection techniques in this study were carried out through observation, *in-depth interviews* with key informants, documentation studies and analysis of policy documents, and supported by relevant secondary data. Documentation studies were conducted on various documents related to regional capital participation, BUMD performance reports, regional financial reports, BUMD dividend data, and regional planning and budgeting documents for Lebak Regency in 2025. The documents analyzed included the Evaluation Results Report (LHE) of the Lebak Regency Regional Inspectorate, data from the Economic Section of the Lebak Regency Regional Secretariat, the 2025 Lebak Regency Regional Budget (APBD) documents, and other supporting data such as BUMD financial reports, regional regulations on capital participation, and policy documents related to BUMD management. In addition, supporting data were also obtained from official government reports, national regulations related to BUMD, and publications from national and international institutions relevant to government-owned company governance. The data is used to identify the amount of capital participation, dividend realization, BUMD contribution to PAD, internal problems faced by each BUMD, as well as improvement efforts made in order to increase performance and fiscal contribution to the region.

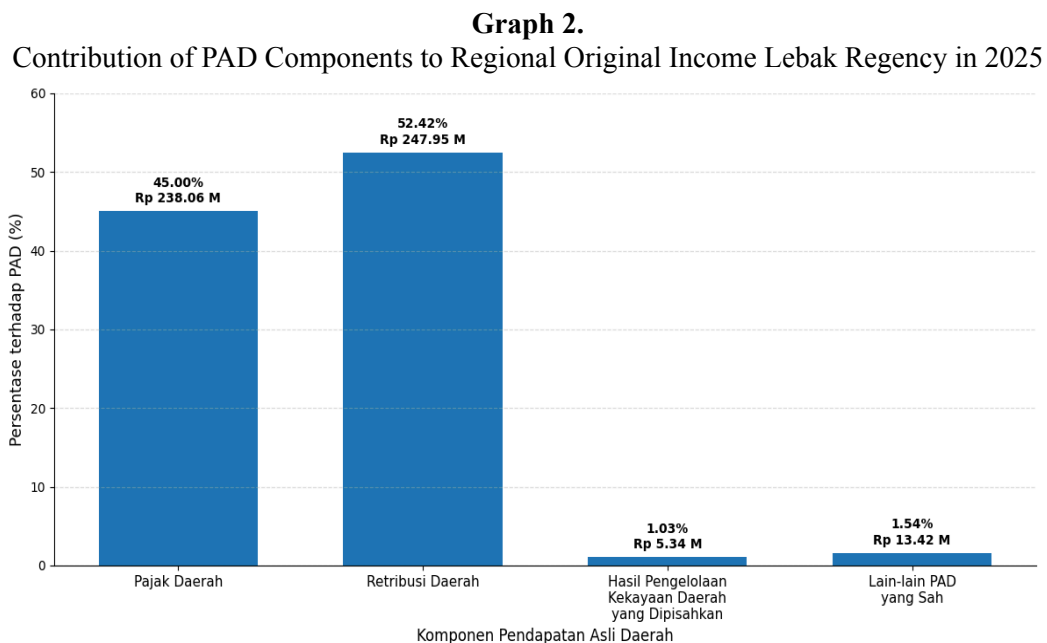
The data analysis in this study was conducted descriptively and qualitatively through the stages of data reduction, data presentation, and drawing conclusions in accordance with the interactive analysis model developed by Matthew B. Miles, A. Michael Huberman, and Johnny Saldaña (2019). The analysis process was carried out systematically by comparing the equity participation and dividend data of each Regional-Owned Enterprise (BUMD), interpreting their contributions to Regional Original Revenue (PAD), and categorizing the findings based on the established analysis dimensions. Furthermore, the data were analyzed using *the Principal Agent*

perspective to explain the delegation, supervision, and accountability relationship between the local government and BUMD, and the *Public Value Governance approach* to assess the extent to which regional equity participation is able to generate real public benefits. Data validity was maintained through source triangulation and document triangulation to ensure the consistency, accuracy, and reliability of the information obtained. Thus, the results of this study are expected to provide a comprehensive picture of the level of effectiveness of regional equity participation in BUMD Lebak Regency in 2025, while also explaining the governance and organizational capacity factors that influence the low or high contribution of dividends to regional income.

4. RESULTS AND ANALYSIS

This sub-chapter presents the results of an analysis of the effectiveness of regional capital participation in Lebak Regency's Regionally-Owned Enterprises (BUMD) until 2025 by examining the relationship between the amount of capital contributed by the Regional Government and the dividend contribution generated by BUMD as a form of economic return to the region. The analysis is conducted by combining *the Principal Agent perspective* to explain the delegation relationship between the regional government as principal and BUMD as agent, and *the Public Value Governance approach* to assess the extent to which regional capital participation is able to generate public value, obtain legitimacy and institutional support, and is supported by adequate operational capacity. Through reading data on Regional Original Income (PAD), capital participation data, dividends, internal problems, and improvement efforts for each BUMD, this sub-chapter aims to identify whether regional public investment in BUMD has provided optimal fiscal benefits and how the quality of governance affects these achievements (Bryson, Crosby, & Bloomberg, 2014; Bryson, Crosby, & Stone, 2015; *OECD*, 2015 ; *G20/OECD*, 2023; *OECD*, 2024).

To provide an overview of the position of the contribution of the results of managing regional assets separated in the structure of the Regional Original Income (PAD) of Lebak Regency in 2025, the following is presented in Graph 2, which shows the percentage contribution of each PAD component to the total regional PAD.



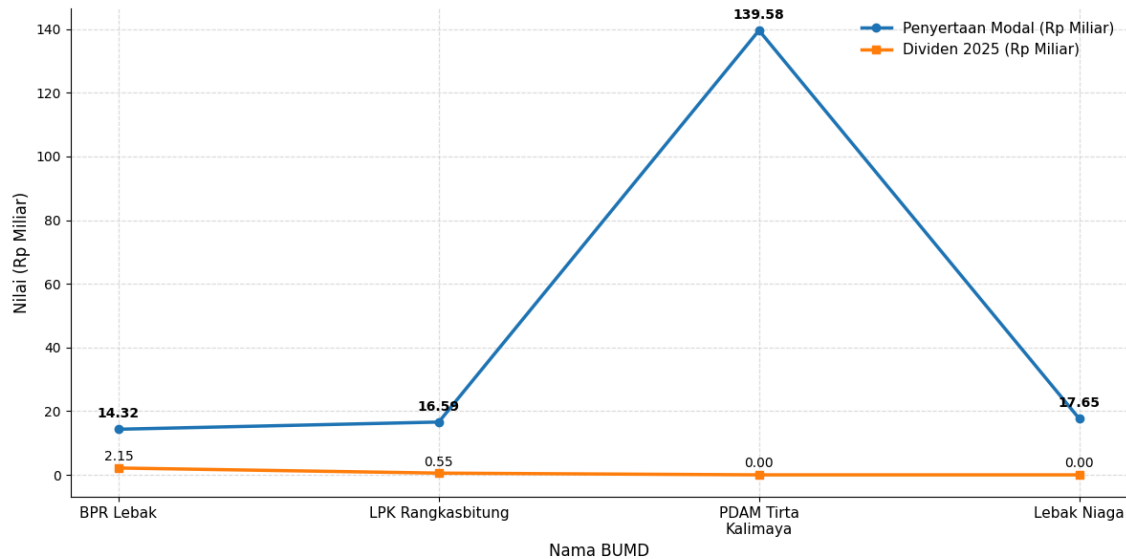
Source: LHE Regional Inspectorate of Lebak Regency, 2026

Although Graph 2 shows that the contribution of separated regional wealth management results to Lebak Regency's 2025 PAD is still relatively small, this finding does not fully explain the relationship between the amount of regional capital participation and the economic results returned

by each BUMD. Therefore, to obtain a more specific picture of the effectiveness of regional capital participation, further analysis is needed to compare the capital participation and dividends generated by each BUMD, as presented in Graph 3.

Graph 3.

Comparison of Capital Participation and Dividends of Regionally-Owned Enterprises in Lebak Regency until 2025



Source: Economic Section of Lebak Regional Secretariat, 2026

Based on Graph 2. comparison of capital participation and dividends of Lebak Regency Regional Owned Enterprises (BUMD) until 2025, the effectiveness of regional capital participation still shows a suboptimal condition when analyzed through the Principal Agent theory, because there is a gap between the amount of public capital allocated by the Regional Government as the principal and the economic results returned by BUMD as the agent in the form of dividends; from the total capital participation of Rp188,141,886,550, the Regional Government only received dividends of Rp2,699,869,858, most of which came from PT BPR Lebak Sejahtera and PT LKM Rangkasbitung, while Perumdam Tirta Kalimaya as the largest capital recipient and PT Lebak Niaga Perseroda have not provided any dividends at all. From *an agency perspective*, this condition can be read as a symptom of *goal incongruence*, *information asymmetry*, and *agency costs*, namely when the principal has delegated resources and mandates, but the agent has not been able to convert them into proportional and measurable fiscal returns. According to *the OECD (2015)*, government-owned enterprises can only deliver optimal results if supported by a clear *ownership policy*, *an active oversight function*, and *a strong accountability system*. Meanwhile, *the G20/OECD (2023)* emphasizes that public sector corporate governance must be oriented towards performance, transparency, and the effectiveness of the supervisory board. Similarly, *the OECD (2024)* emphasizes that state-owned/regional-owned enterprises require results-based performance monitoring to ensure that commercial and public objectives do not undermine each other. Meanwhile, the World Bank (2024) points out that weaknesses in governance, oversight, and managerial capacity are key factors contributing to low productivity and fiscal contributions of government-owned enterprises. More specifically, Sultan (2024) explains that *the principal-agent relationship* in public enterprises tends to face effectiveness issues when incentive structures, controls, and performance evaluations are not clearly designed. Thus, the low dividend contribution from some of the Regional-Owned Enterprises (BUMD) in Lebak Regency not only reflects the

problem of limited capital, but also indicates that *the principal-agent relationship* is not yet fully effective, so that improving the quality of *Good Corporate Governance (GCG)*, operational restructuring, digitalization, strengthening HR capacity, and setting dividend targets based on the company's real capacity are strategic steps so that regional capital participation truly functions as an instrument for increasing Regional Original Income (PAD) and creating public economic value.

In analyzing the effectiveness of regional equity participation in Lebak Regency's Regionally-Owned Enterprises (BUMD) until 2025, this study refers to the *Public Value Governance perspective*, which positions public and semi-public organizations as instruments of value creation for the community and government. Through this approach, the effectiveness of equity participation is not solely measured by the amount of funds disbursed, but rather by the BUMD's ability to create public value, obtain institutional support and legitimacy, and carry out its business functions operationally and managerially. Thus, the discussion in this study focuses on four main dimensions, namely *Fiscal Contribution to Local Own-Source Revenue* (fiscal contribution to Regional Original Income (PAD) as an indicator of direct economic benefits for local governments), *Public Value* as a representation of the public value generated, *Legitimacy and Support* as a form of institutional support and legitimacy, and *Operational Capacity* as the internal capacity of BUMD in managing capital productively. These four dimensions are used to obtain a more comprehensive picture of the success and limitations of regional capital participation in encouraging BUMD dividend contributions (Bryson, Crosby, & Bloomberg, 2014; Bryson, Crosby, & Stone, 2015; Geuijen et al., 2017; Virtanen & Vakkuri, 2024).

Fiscal Contribution to Local Own-Source Revenue (fiscal contribution to Local Original Income (PAD))

The Fiscal Contribution to Local Own-Source Revenue (PAD) dimension refers to the extent to which regional capital participation in Regionally-Owned Enterprises (BUMD) is able to generate tangible economic returns for regional finances, primarily through dividends as part of the results of managing separated regional assets. In the context of public governance, this dimension is important because the effectiveness of public investment is not only measured by the amount of capital disbursed, but also by the ability of the investment to generate fiscal returns that strengthen the fiscal capacity of local governments. From a *Principal Agent perspective*, dividends are a concrete indicator to assess whether BUMD as an agent has succeeded in converting resources entrusted by the local government as principal into accountable economic benefits. Meanwhile, within the *Public Value Governance framework*, fiscal contributions are understood as a form of measurable public value, because they strengthen the ability of local governments to finance public services and development. Thus, this dimension places the contribution to PAD as an important indicator to assess whether regional capital participation truly functions as an instrument for strengthening regional finances and not merely a form of administrative ownership of BUMD (Bryson, Crosby, & Bloomberg, 2014; OECD, 2015; G20/OECD, 2023).

Based on Graph 2, the contribution of separated regional wealth management results to Lebak Regency's PAD in 2025 was only IDR 5.34 billion or 1.03%, much smaller than Regional Retribution (52.42%) and Regional Tax (45.00%). This finding indicates that fiscally, the role of BUMD in supporting PAD is still very limited, even though the regional government has positioned BUMD as one of the regional economic instruments. When linked to BUMD data, this condition further confirms that of the total capital participation of the Lebak Regency Regional Government of IDR 188.14 billion, dividends returned to the region were only around IDR 2.70 billion, and were even highly concentrated in PT BPR Lebak Sejahtera and PT LKM Rangkasbitung, while Perumdam Tirta Kalimaya as the largest capital recipient and PT Lebak Niaga Perseroda have not paid any dividends at all. From *the Principal Agent perspective*, this situation reflects an *agency problem*, namely when the principal has handed over capital and mandate to the agent, but the resulting economic results are not yet comparable to the fiscal expectations of the regional government. These conditions indicate *goal incongruence*, *information asymmetry*, and weak

performance-based monitoring, resulting in equity participation not yet fully generating optimal public returns. This finding aligns with the *OECD* (2024) view, which emphasizes that government-owned enterprises need to be guided by results-based performance monitoring, supported by strong *ownership policies* and accountability to provide measurable economic benefits to public owners. Similarly, *the World Bank* (2024) emphasizes that weak governance, oversight, and managerial capacity often result in government-owned enterprises failing to make significant fiscal contributions. Therefore, in this study, the low contribution of regionally-owned enterprises (BUMD) to local revenue (PAD) can be interpreted as an indication that regional equity participation in Lebak Regency is not yet fiscally effective, necessitating strengthened governance, the establishment of more stringent dividend targets, and performance-based evaluations to ensure that regional investment truly impacts regional fiscal independence (*OECD*, 2024; World Bank, 2024).

The results of the study indicate that the fiscal contribution of regionally-owned enterprises (BUMD) to Lebak Regency's regional original revenue (PAD) remains very low, thus the effectiveness of regional capital participation as a fiscal strengthening instrument is not optimal. This finding aligns with the view of Bryson, Crosby, and Bloomberg (2014) who position public value as a tangible outcome of the use of public resources, including in the form of fiscal benefits for local governments. These results are also consistent with Bryson, Crosby, and Stone (2015) who assert that public and semi-public organizations require clear mandates, coordination, and governance support to produce measurable outcomes. More broadly, Geuijen et al. (2017) explain that public value is only created when the resources owned by public organizations can be converted into relevant benefits for the government and society, while Virtanen and Vakkuri (2024) emphasize that public value must be reflected in measurable outcomes, not simply administrative activities. In terms of governance of government-owned enterprises, this study's findings are also in line with *the OECD* (2015), *G20/OECD* (2023), and *OECD* (2024), which emphasize that state-owned/regional-owned enterprises require clear ownership policies, active oversight, transparency, accountability, and results-based performance monitoring to deliver tangible returns to public owners. Similarly, *the World Bank* (2024) indicates that weak governance, managerial capacity, and oversight systems in government-owned enterprises often lead to low productivity and fiscal contributions. More specific findings, such as those by Sidki, Boerger, and Boll (2024), indicate that board effectiveness and corporate governance quality strongly influence the financial performance of state-owned enterprises, while Kanyongo and Lipunga (2024) emphasize that sound internal controls contribute to operational efficiency and financial results. Thus, from a general perspective, this study confirms that the low dividends of Lebak Regency's regionally-owned enterprises (BUMDs) indicate their weak ability to convert public capital into measurable fiscal contributions, as has been widely emphasized in the literature on public governance and government-owned enterprises. The general findings on the importance of active ownership policies, transparency, and performance monitoring are also supported by recent *OECD standards and compendiums*.

However, this study also found important differences from some normative assumptions in the literature. Theoretically, many studies, including those of *the OECD* (2024) and *the World Bank* (2024), tend to assume that if the government provides capital support, a good governance framework, and ownership functions, then state-owned enterprises will be better able to generate adequate fiscal benefits. However, in the case of the Lebak Regency Regional-Owned Enterprises (BUMD), the findings indicate that capital increases are not automatically proportional to dividend contributions, primarily because fiscal performance is strongly influenced by the business characteristics, operational capacity, and public service functions of each BUMD. This is evident in the case of Perumdam Tirta Kalimaya, which received the largest portion of capital but has not yet paid dividends, thus demonstrating that fiscal contributions cannot always be interpreted solely

from a linear relationship between capital and returns. In this regard, your research findings extend the views of Bryson et al. (2014) and Geuijen et al. (2017), as they demonstrate that in the context of regional BUMDs, public value and fiscal contributions can move in a different direction: a BUMD can have public service value, but not necessarily deliver significant fiscal returns. Another difference, compared to the findings of Sidki et al. (2024) or Kanyongo and Lipunga (2024) who emphasized the strong influence of *board effectiveness* and internal control on financial performance, this study shows that at the regional level, *agency problems* lie not only in formal control mechanisms, but also in unprepared organizational capacity, cost structure, digitalization, business risk, and weak results-based performance orientation. Thus, the main contribution of this study lies in confirming that *Fiscal Contribution to Regional Original Revenue (PAD)* in the context of regionally-owned enterprises (BUMD) must be understood not merely as an indicator of financial output, but as the end result of *principal-agent relations*, governance quality, public service functions, and the company's operational capacity. Therefore, the effectiveness of regional capital participation cannot be measured solely by the amount of capital or the legality of the participation, but must be tested by the actual ability of BUMDs to generate proportional, sustainable dividends and impact regional fiscal independence. The *OECD Standards 2023-2024* also emphasize that board accountability, information transparency, and results-based evaluation are prerequisites for public capital to truly translate into tangible economic benefits.

Public Value

In the context of the effectiveness of regional capital participation in BUMD, the *Public Value dimension* refers to the extent to which capital invested by the regional government is able to produce real benefits for the public interest, both in the form of fiscal contributions such as dividends and strengthening of Regional Original Income (PAD), as well as in the form of economic value and services felt by the community. In the perspective of *Public Value Governance*, public and semi-public organizations are not only assessed from the perspective of business sustainability, but from their ability to create valuable results for the government and citizens (Bryson, Crosby, & Bloomberg, 2014). Therefore, in this study, the *Public Value dimension* can be read from how much dividends paid by BUMD compared to the capital participation that has been provided by the Lebak Regency Regional Government.

The data in Chart 3 shows that the contribution of separated regional wealth management results to PAD was only 1.03%, while of the total capital investment of Rp188.14 billion, the dividends returned to the region were only around Rp2.70 billion, the majority of which came from only two Regionally-Owned Enterprises (BUMD). This condition indicates that the public value generated from regional investment in BUMD is still limited, because the fiscal benefits received by local governments are not commensurate with the allocated public resources. This finding is in line with Moore's (1995) view that public value is created when public resources are able to be converted into results that provide collective benefits, and is reinforced by studies by Geuijen et al. (2017) and Virtanen and Jalonen (2024) who emphasized that the creation of public value depends on the ability of public organizations to produce relevant, measurable, and impactful outcomes for the government system and society. In the context of BUMD, low dividends mean that the public return from public capital is still weak, so the effectiveness of regional capital participation has not fully met the Public Value dimension as an indicator of the success of regional government investment governance.

Based on the research results, the low dividend contribution of Lebak Regency's Regionally-Owned Enterprises (BUMD) compared to the large regional capital participation indicates that the effectiveness of regional public investment has not been fully achieved, and this finding is in line with a number of literature that emphasizes that government ownership does not automatically produce optimal financial performance without the support of strong governance. Bryson, Crosby, and Bloomberg (2014) emphasize that public and semi-public organizations must be assessed by their ability to create *public value*, not just from the organization's sustainability.

This research finding is also in line with Bryson, Crosby, and Stone (2015) who explain that the creation of public value is highly dependent on collaborative capacity, clarity of mandate, and coordination between actors. In a broader context, Geuijen et al. (2017) emphasize that public organizations can only generate public value when they are able to transform their resources into relevant *outcomes* for the government and society, while Virtanen and Vakkuri (2024) show that public value is only truly created when public organizations can demonstrate measurable results, not just administrative activities. The results of this study are also consistent with *the OECD* (2015) and *OECD* (2024), which emphasize that government-owned enterprises require clear ownership policies, firm performance targets, transparency, and active oversight to deliver tangible returns to the country/region. Similarly, *the G20/OECD* (2023) places accountability, supervisory board effectiveness, and results orientation as key elements of public sector corporate governance, while *the World Bank* (2024) indicates that weak managerial and oversight capacity in government-owned enterprises often leads to low fiscal contributions. Thus, the results of this study generally reinforce the expert view that the effectiveness of regional equity participation is not solely measured by the size of the investment, but rather by the ability of regionally-owned enterprises (BUMDs) to convert public capital into dividends and measurable fiscal benefits.

On the other hand, there are also important differences between the findings of this study and some theoretical views and ideal practices put forward in the literature. Normatively, *the OECD* (2024) and *the World Bank* (2024) emphasize that state-owned enterprises should not only pursue commercial objectives but can also be burdened with *public service obligations*, so performance is not always fully reflected in dividends; this is particularly relevant in the case of Perumdam Tirta Kalimaya, which, despite not contributing dividends, continues to provide public drinking water services with a strong social dimension. In other words, this study found that dividend indicators are very powerful for measuring fiscal effectiveness, but not entirely sufficient to assess the overall performance of regionally-owned enterprises (BUMDs) that have dual commercial and public service functions. Another difference, when compared to the findings of Sidki, Boerger, and Boll (2024), is that international literature shows that the quality of the supervisory board and management competence have a strong influence on the financial performance of BUMDs/SOEs, whereas in this study these aspects are only indirectly apparent through issues of digitalization, human resources, internal supervision, receivables, efficiency, and weak risk control faced by each BUMD. This means that the results of this study do not contradict theory, but rather demonstrate that in the context of Lebak Regency, the principal-agent problem arises not only from formal ownership relations, but also from the unpreparedness of organizational capacity and internal governance to transform regional capital into comparable economic outcomes. Therefore, the main contribution of this research lies in the affirmation that regional capital participation will be effective only if it is accompanied by strengthening governance, clarity of commercial versus public service mandates, performance-based monitoring, and adequate operational capacity, so that the relationship between regional governments and BUMDs moves from an administrative delegation pattern to a productive and accountable delegation.

Legitimacy and Support

In the context of the effectiveness of regional capital participation in Lebak Regency's Regionally-Owned Enterprises (BUMD) until 2025, *the Legitimacy and Support* dimension refers to the extent to which capital participation provided by the regional government has a legitimate policy basis, strong institutional support, and adequate monitoring and development mechanisms so that BUMDs are able to carry out their economic mandates accountably. From a *Public Value Governance perspective*, legitimacy does not only mean formal legality, but also includes political, administrative, regulatory, and institutional support that enables public or semi-public organizations to work effectively to generate value for the government and society. In the case of BUMDs in

Lebak Regency, based on Graph 3, the existence of continued capital participation indicates fiscal support and local government trust in the role of BUMDs as instruments of regional economic development. However, the low dividend contribution from most BUMDs indicates that this support has not been fully followed by strengthening ownership policies, monitoring, transparency, and performance accountability, so that the legitimacy formed still tends to be administrative in nature and not fully results-oriented.

Thus, the legitimacy of capital participation is not only proven through budget allocation and formal legality, but must also be realized through clear regional investment objectives, target results, periodic evaluations, and active supervision as a form of principal control over the agent. This view is in line with Bryson, Crosby, and Bloomberg (2014) who place legitimacy and support as the main prerequisites for creating public value, and is reinforced by *the OECD* (2015) and *OECD* (2024) which emphasize that government-owned companies can only perform well if the state/region as the owner carries out its ownership function professionally, actively, and based on clear policies. In line with that, *the G20/OECD* (2023) emphasizes the importance of *disclosure, board effectiveness, and accountability*, while *the World Bank* (2024) shows that weak institutional support and owner oversight are often the causes of the low effectiveness of government-owned enterprises. Therefore, in this study, *the Legitimacy and Support dimension* is understood as the level of regulatory, institutional, and supervisory support strength of the regional government in ensuring that capital participation in BUMD does not stop at administrative legitimacy, but is truly directed towards generating dividends, accountability, and real fiscal benefits for the region.

The results of the study indicate that *the Legitimacy and Support dimensions* of regional capital participation in Lebak Regency's Regionally-Owned Enterprises (BUMD) are formally strong, but substantively not yet fully effective. Formally, legitimacy is evident in the existence of regional government fiscal support through continued capital participation provided to BUMD, which indicates recognition that BUMD is positioned as an instrument of regional economic policy. This finding is in line with the view of Bryson, Crosby, and Bloomberg (2014) who place legitimacy and support as important requirements in the creation of *public value*, and is reinforced by Bryson, Crosby, and Stone (2015) who emphasize that institutional support and clarity of mandate are crucial for the success of public and semi-public organizations. The results of this study are also in line with *the OECD* (2015) and *OECD* (2024) which state that government-owned companies will only be able to deliver optimal performance if there is a clear *ownership policy*, consistent policy support, and ownership functions that are actively carried out by the government as the capital owner. In a similar context, *the G20/OECD* (2023) emphasized that the legitimacy of public companies is not solely based on legal establishment or formal ownership but must also be strengthened through transparency, accountability, board effectiveness, and results orientation. This finding is also supported by *the World Bank* (2024), which indicates that institutional support and the quality of owner oversight are important factors in determining whether government-owned enterprises are able to generate tangible fiscal and service benefits. Therefore, from a similar perspective, the results of this study confirm that legitimacy and local government support are indeed important foundations for the sustainability of regionally-owned enterprises (BUMD), but are not sufficient to guarantee effective performance if not accompanied by strengthened governance and principal control over agents.

However, this study also found important differences compared to some normative assumptions in the literature. While Bryson et al. (2014), Geuijen et al. (2017), and Virtanen & Vakkuri (2024) emphasize that legitimacy and institutional support should be the primary capital for public organizations to create public value, in the case of the Lebak Regency Regionally-Owned Enterprises (BUMD), fiscal support from the local government has not automatically transformed into performance legitimacy. This means that although the local government has demonstrated support through capital participation, the study results show that some BUMDs still face problems such as limited human resources, weak internal oversight, high operational costs, customer receivables, low digitalization, and weak business efficiency. Consequently, the legitimacy formed

is still predominantly administrative and political in nature, not yet fully results-based. This difference also expands the findings of *the OECD* (2024) and *the World Bank* (2024) which tend to place legitimacy within a formal institutional framework, as this study shows that in the regional context, the legitimacy of a regionally-owned enterprise (BUMD) is not simply measured by regulations, capital, and organizational structure, but must be tested by the BUMD's ability to account for government support through tangible dividend contributions. From a *Principal Agent perspective*, this condition shows that the relationship between the regional government as principal and the BUMD as agent still faces issues of monitoring, evaluation, and alignment of goals, so that substantial support has not fully produced comparable economic output. Therefore, the main contribution of this study lies in the affirmation that *Legitimacy and Support* in the context of regional BUMD must be understood not only as legality and budgetary alignment, but also as the ability of the regional government to build a productive, disciplined, and performance-based support system so that capital participation truly impacts PAD and regional public value.

Operational Capacity

In the context of the effectiveness of regional capital participation in Lebak Regency's Regional-Owned Enterprises (BUMD) until 2025, the *Operational Capacity dimension* refers to the BUMD's actual ability to manage the capital received into measurable business performance, profits, and dividends through the support of management, work systems, human resources, technology, operational efficiency, and adequate risk control. In the perspective of *Public Value Governance*, public value will not be created if public or semi-public organizations do not have sufficient internal capacity to transform resources into valuable results (Bryson, Crosby, & Bloomberg, 2014; Geuijen et al., 2017). Therefore, the effectiveness of regional capital participation cannot be understood only from the amount of funds invested, but also from the extent to which BUMD has the operational capability to utilize the capital productively, efficiently, and sustainably.

In the case of Lebak Regency's Regionally-Owned Enterprises (BUMD), based on Graph 3, the low, or even zero, dividend yields in some BUMDs indicate that the main problem lies not only in the amount of capital participation, but also in the company's operational capacity to manage the business productively and efficiently. This is reflected in various issues faced by BUMDs, such as liquidity and limited digitalization in the financial sector, high operational costs and credit risks, customer receivables and water loss at Perumdham, and limited human resources and weak internal oversight at commercial BUMDs. These findings indicate that capital participation does not automatically generate fiscal returns if it is not accompanied by adequate organizational capacity to carry out business functions. This view aligns with *the OECD* (2022) which emphasizes the importance of performance monitoring and results-based performance reporting in government-owned companies, and is reinforced by *the OECD* (2024) and *World Bank* (2024) which emphasize that the performance of state-owned/regional-owned enterprises is strongly influenced by management quality, board effectiveness, internal oversight capacity, and the company's operational capabilities in maintaining efficiency, accountability, and business sustainability. Thus, in this study, *the Operational Capacity dimension* is understood as the level of internal capability of BUMD in converting regional capital participation into measurable economic performance, so that the lower this capability, the lower the effectiveness of regional capital participation as an instrument for strengthening PAD and public value.

The research findings indicate that *the Operational Capacity dimension* is one of the most crucial factors in explaining the low effectiveness of regional capital participation in Lebak Regency's Regionally-Owned Enterprises (BUMD). The finding that some BUMDs have not been able to convert the capital received into measurable dividends indicates that the main problem lies not solely in the size of the capital participation, but in the organization's internal ability to manage resources, run the business efficiently, control risks, and produce healthy financial performance.

These findings align with the view of Bryson, Crosby, and Bloomberg (2014) that public and semi-public organizations can only create public value if they have sufficient operational capacity to convert resources into valuable outcomes. This finding is also consistent with Geuijen et al. (2017) who assert that public value creation depends heavily on an organization's ability to produce relevant outcomes, not simply manage inputs. In the context of government-owned enterprises, *the OECD* (2022) emphasizes the importance of performance monitoring and results-based reporting as instruments to ensure that state-owned/regional-owned enterprises have objectively measurable managerial and operational capacity. *The OECD* (2024) and *the OECD Guidelines* (2024) reaffirm that the effectiveness of state-owned enterprises is largely determined by board competence, the quality of strategic oversight, clarity of management responsibilities, and the company's operational capabilities in maintaining business efficiency and sustainability. This study's findings also align with those of *the World Bank* (2024), which indicates that weak management capacity, low operational efficiency, and weak internal control systems are the main causes of the low fiscal contribution of state-owned enterprises. More specifically, this study's findings are supported by Kanyongo and Lipunga (2024), who demonstrated that internal control mechanisms positively impact the operational efficiency of state-owned enterprises, and by Pramono and Bustaman (2024), who demonstrated that operational efficiency and governance contribute significantly to the value of state-owned enterprises in Indonesia. Therefore, from a comparative perspective, this study confirms that operational capacity is a key prerequisite for regional capital participation to translate into tangible economic performance and dividend contributions.

However, this study also demonstrates important differences from some normative assumptions in the literature, particularly regarding the notion that increased capital and institutional support will automatically improve the performance of state-owned enterprises. In the practice of the Regionally-Owned Enterprises (BUMD) in Lebak Regency, large capital investments, particularly in Perumdam Tirta Kalimaya, do not necessarily generate dividends, meaning operational capacity does not grow linearly with additional capital. This difference expands the findings of Sidki, Boerger, and Boll (2024), who emphasized the importance of the educational background and experience of the supervisory board on the financial performance of state-owned enterprises. In the context of this study, the problem lies not only in the quality of the board but also in lagging digitalization, high customer receivables, high operational costs, weak human resources, suboptimal internal oversight, and ineffective business expansion strategies. This finding also differs from the findings of Huang and Qiu (2023), who showed that investment efficiency in state-owned enterprises can increase when executive power and managerial control are properly managed; in the case of Lebak Regency, the problem actually indicates that the control structure and execution capacity are not fully effective. Furthermore, when compared with Arifah et al. (2023) who differentiate managerial performance and financial performance in Indonesian SOEs, this study shows that BUMDs can still carry out organizational and service functions, but are not necessarily able to produce comparable financial performance. Therefore, the main contribution of this study lies in the affirmation that in the context of regional BUMDs, *Operational Capacity* should not be understood only as administrative capabilities or operational sustainability, but rather as an integrated ability to transform regional capital into measurable, efficient, and accountable economic results, so that capital participation truly functions as an instrument to strengthen PAD and regional public value.

5. CONCLUSION

Based on the research results, it can be concluded that the effectiveness of regional capital participation in Regional Owned Enterprises (BUMD) of Lebak Regency until 2025 is still not optimal when analyzed through the *Principal Agent perspective*. The main findings of the study indicate a significant gap between the amount of public capital allocated by the Lebak Regency Regional Government and the economic results returned by BUMD in the form of dividends. Of the total capital participation of Rp188,141,886,550, the regional government only received dividends

of Rp2,699,869,858, most of which came from PT BPR Lebak Sejahtera (Perseroda) and PT LKM Rangkasbitung, while Perumdam Tirta Kalimaya and PT Lebak Niaga Perseroda have not contributed dividends. This condition indicates that regional capital participation has not fully functioned as an effective public investment instrument to strengthen Regional Original Income (PAD). From *the Principal Agent perspective*, this situation reflects the ongoing problems of *goal incongruence, information asymmetry, agency costs, weak performance-based monitoring, and suboptimal governance* of the relationship between the regional government as the principal and the BUMD as the agent, so that the separated public capital has not been fully converted into proportional, measurable, and accountable fiscal benefits.

When viewed through the four dimensions within the *Public Value Governance framework*, this study shows that *the Fiscal Contribution to Local Own-Source Revenue (PAD)* dimension is still low, because the contribution of separated regional wealth management results to Lebak Regency's PAD in 2025 is only around 1.03%, so that fiscally the role of BUMD is not yet significant. In the *Public Value dimension*, the benefits generated by BUMD are still limited because the public value created is not yet commensurate with the allocated public resources, especially in terms of direct economic benefits for local governments. In the *Legitimacy and Support dimension*, regional capital participation does have formal legitimacy and strong fiscal support, but is not yet fully supported by clear *ownership policies, active monitoring systems, transparency, and results-oriented performance accountability*. Meanwhile, in the *Operational Capacity dimension*, the low dividends generated by BUMD indicate that some BUMDs still face serious problems related to managerial capacity, operational efficiency, risk control, HR quality, digitalization, and internal supervision. Thus, this study confirms that the effectiveness of regional capital participation in BUMD is not solely determined by the amount of capital disbursed, but is highly dependent on the quality of governance, clarity of principal-agent relations, strength of institutional legitimacy, and the operational capabilities of BUMD in converting public capital into dividends, fiscal benefits, and real public value for the region.

Theoretically, this study shows that the analysis of the effectiveness of regional capital participation in BUMD is not sufficiently explained only through the *Principal Agent theory* which focuses on the relationship of delegation, supervision, and accountability between the regional government as the principal and BUMD as the agent, but needs to be enriched with the *Public Value Governance approach* to capture broader dimensions related to public value, institutional legitimacy, and organizational operational capacity. Therefore, further research is recommended to develop a more integrative analysis model by combining *Principal Agent Theory, Public Value Governance, and Good Corporate Governance*, and adding indicators that are not only oriented towards dividends and financial performance, but also on public service performance, social benefits, operational efficiency, and quality of governance. Thus, the effectiveness of regional capital participation in BUMD can be understood more comprehensively as a form of public investment that not only produces fiscal returns, but also long-term economic value and public benefits.

Practical Advice: The Lebak Regency Government needs to reorient its regional equity participation policy so that it is not limited to a financing function but is firmly directed as an instrument for improving performance and contributing to local revenue (PAD). To this end, the regional government needs to formulate a clearer ownership policy, establish dividend targets and key performance indicators (KPIs) based on the actual capacity of each regionally-owned enterprise (BUMD), and strengthen results-based monitoring, evaluation, and supervision of the use of regional capital. Internally, BUMDs also need to be encouraged to restructure operations, increase human resource capacity, strengthen *Good Corporate Governance (GCG)*, improve internal control systems, and accelerate business digitalization so that the capital invested can be converted into profits, dividends, and more measurable economic benefits. With these steps, it is hoped that

regional equity participation will no longer be a passive investment, but will truly function as a tool to strengthen BUMD performance, public value, and regional fiscal independence.

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