



ANALYSIS OF THE ROLE OF MANAGERIAL ECONOMICS IN STRATEGIC DECISION-MAKING IN LOCAL GOVERNMENT

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ABSTRACT

Strategic decision-making is one of the primary functions of local governments in achieving effective, efficient, transparent, and accountable governance. The complexity of regional development issues, limited resources, and increasing public demands for quality public services call for a more rational and data-driven approach to the decision-making process. This study aims to analyze the role of managerial economics in supporting strategic decision-making in local governments. The study employs a library research method with a qualitative descriptive approach through the analysis of various books, scientific articles, regulations, and research findings related to managerial economics, public management, and strategic decision-making. The findings indicate that managerial economics serves as an analytical tool for optimizing resource allocation, conducting cost-benefit analyses, assessing community needs, evaluating policy alternatives, managing risks, and enhancing the effectiveness of regional development planning. The application of managerial economics principles also supports the formulation of public policies that are more adaptive to changes in the strategic environment and strengthens the accountability of local government performance. Thus, managerial economics is an important approach for improving the quality of local government strategic decisions toward good governance.

Keywords: *Managerial Economics, Strategic Decision, Local Government, Public Policy, Good Governance.*

INTRODUCTION

Evolving paradigms in governance have shifted the orientation of public sector organizations from merely performing administrative functions to becoming organizations focused on creating *public value*. Local governments, as the administrators of government affairs, are expected to produce policies that are

effective, efficient, responsive, transparent, and accountable. In this context, the quality of strategic decision-making is one of the key factors determining the success of local governance.

Strategic decision-making in local government is not only related to the formulation of development programs, but also encompasses setting budget priorities, managing human resources, providing public services, developing infrastructure, regional investment, and mitigating various development risks. All of these decisions must take into account resource constraints, the dynamics of the external environment, regulatory changes, the socioeconomic conditions of the community, and increasingly complex development demands.

On the other hand, local governments face various challenges in the decision-making process, including budget constraints, economic uncertainty, the public's growing demand for high-quality public services, advances in information technology, and demands for transparency and accountability. These conditions call for a scientific approach that can help policymakers identify the most rational decision alternatives and those that provide the greatest benefits to the public.

One academic discipline that makes a significant contribution to this process is managerial economics. Managerial economics is a branch of applied economics that integrates economic theory, management science, statistics, mathematics, and quantitative analysis techniques to help managers and decision-makers solve various organizational problems rationally. In the public sector, the concepts of managerial economics are used not only to improve organizational efficiency but also to ensure that every public policy provides optimal social benefits while making the most of limited resources.

The application of managerial economics in local government is becoming increasingly important with the implementation of the principles of good governance and New Public Management (NPM), which emphasize effectiveness, efficiency, productivity, transparency, and a results-oriented approach (result-oriented government). Local governments are required to formulate policies based on cost-benefit analysis, risk analysis, analysis of public service demand, analysis of local investments, and evaluation of various policy alternatives before decisions are made.

In addition, the implementation of the Electronic-Based Government System (SPBE), the digitization of public services, and the use of big data have expanded the scope of managerial economics in supporting evidence-based decision-making (evidence-based policy). Through the use of accurate data and comprehensive economic analysis, local governments can improve the quality of development planning while optimizing the use of local budgets.

Nevertheless, in practice, there are still various strategic decisions made by local governments that are not fully based on comprehensive economic analysis. These decisions are often influenced by administrative considerations, political pressure, or limited information, which can potentially lead to inefficient use of the budget, low effectiveness of development programs, and suboptimal public services.

Therefore, a study on the role of managerial economics in strategic decision-making is important for providing an understanding of how economic principles can be implemented in the public policy formulation process at the local government level. This study is expected to make a theoretical contribution to the development of managerial economics while also serving as a practical reference for policymakers in improving the quality of local government governance.

Based on the above discussion, this article aims to analyze the role of managerial economics in supporting strategic decision-making in local government

through a literature review approach, thereby providing an overview of how managerial economics concepts contribute to enhancing the effectiveness, efficiency, and accountability of local government administration.

Managerial economics is a branch of applied economics that integrates economic theory with management science to help decision-makers determine the most effective and efficient policy alternatives for achieving organizational goals. This discipline has evolved in response to the needs of organizations facing an increasingly complex, dynamic, and uncertain business and organizational environment. Through the managerial economics approach, managers can utilize concepts from microeconomics, macroeconomics, statistics, mathematics, operations research, and quantitative analysis as a foundation for formulating strategic decisions.

Essentially, managerial economics seeks to bridge the gap between conceptual economic theory and management practices focused on solving organizational problems. Therefore, managerial economics not only examines how decisions are made, but also how those decisions yield optimal benefits through the use of limited resources.

According to Salvatore (2019), managerial economics is the application of economic theory and analytical methods to business and organizational decision-making processes. This approach helps managers understand the relationships between costs, revenue, demand, production, investment, and risk, so that the resulting decisions have a strong scientific foundation.

Dominick Salvatore emphasizes that managerial economics aims to help managers solve various practical problems through the application of economic theory. In the context of modern organizations, economic theory is no longer viewed merely as an academic concept, but rather as an analytical tool that can improve the quality of decision-making at various levels of the organization.

Meanwhile, McGuigan, Moyer, and Harris (2020) define managerial economics as the process of applying economic theory and quantitative analytical tools to support organizational decisions related to the efficient allocation of resources. This definition emphasizes that all organizational decisions must take into account the principle of economic efficiency—that is, how to achieve maximum results with the minimum use of resources.

From the perspective of public-sector organizations, the concept of managerial economics has undergone significant development. While in the private sector the primary goal of managerial economics is profit maximization, in the public sector the focus has shifted toward public value creation, improving public welfare, enhancing the effectiveness of public services, and optimizing the use of government budgets.

As public organizations, local governments have characteristics that differ from those of business organizations. The decisions they make are not aimed solely at generating financial profit, but are rather directed toward improving the quality of public services, accelerating regional development, reducing social inequality, and enhancing the well-being of the community. Therefore, the application of managerial economics in local government places greater emphasis on the efficient use of the budget, the effectiveness of public policy, and the optimization of social benefits.

In the practice of local government administration, managerial economics serves as the foundation for various strategic activities, such as the preparation of the Regional Revenue and Expenditure Budget (APBD), the setting of development priorities, the evaluation of government programs, the management of regional investments, the procurement of goods and services, and the development of public

services. These decisions require comprehensive economic analysis to ensure that the resources available to local governments are utilized optimally.

In addition, managerial economics also plays a role in supporting the implementation of good governance principles. Local governments are required to develop policies that are transparent, accountable, efficient, effective, participatory, and oriented toward the public interest. Through the application of systematic economic analysis, local governments can select policy alternatives that provide the greatest benefits at the most reasonable cost.

As digital transformation in the public sector continues to evolve, the implementation of managerial economics is increasingly supported by the use of information technology, management information systems, big data, artificial intelligence, and data analytics. These technologies enable local governments to obtain more accurate information about the socioeconomic conditions of their communities, thereby ensuring that strategic decisions are more targeted and evidence-based.

Thus, managerial economics is not only a tool for economic analysis but also a strategic instrument for improving the quality of local government governance. Decisions based on the principles of managerial economics will enhance the efficient use of public resources, strengthen accountability, and result in policies that are more responsive to the needs of the community.

The scope of managerial economics encompasses all economic analysis processes used to support organizational decision-making. This analysis is not limited to financial aspects but also includes strategic planning, resource management, policy evaluation, and risk management for the organization.

According to McGuigan et al. (2020), the scope of managerial economics includes demand analysis, production theory, cost theory, market analysis, pricing, investment, capital budgeting, risk analysis, and decision-making under uncertainty. All of these aspects form the basis for organizations to determine strategies that can enhance the effectiveness of achieving their objectives.

In the context of local government, the scope of managerial economics has expanded to encompass not only economic efficiency but also social values, equitable development, and the public interest. Therefore, managerial economics serves as a vital tool in supporting the process of sustainable regional development planning.

In general, the scope of managerial economics within local government organizations can be grouped into the following aspects. Local governments need to understand the public's needs for various types of public services, such as education, health care, infrastructure, transportation, and administrative services. Demand analysis enables governments to set development priorities based on the public's actual needs. Cost analysis is used to determine the amount of expenditure required to implement a government program. Cost information serves as the basis for drafting the Regional Budget (APBD) and evaluating the efficiency of budget utilization. Every government policy must yield benefits that outweigh the costs incurred. Therefore, a benefit analysis is a key tool for evaluating the feasibility of a development program. Cost-benefit analysis is one of the primary tools of managerial economics used to compare social benefits with the costs the government must bear. This approach helps the government select programs that provide the greatest added value to society.

Local governments face various risks, including economic, political, social, environmental, and natural disaster risks. Risk analysis helps governments develop mitigation strategies so that the decisions they make continue to provide optimal benefits. Managerial economics uses forecasting techniques to predict economic

conditions, population growth, public service needs, inflation, local revenue, and investment trends. This information serves as the basis for formulating both medium-term and annual development plans. Local governments often face investment decisions, such as the construction of hospitals, roads, industrial parks, public markets, or transportation systems. Economic analysis is necessary to ensure that these investments yield maximum economic and social benefits. Government resources are always limited, while development needs continue to rise. Therefore, managerial economics helps determine budget priorities so that every rupiah spent yields optimal public benefits.

Once a policy has been implemented, an evaluation is needed to assess its effectiveness, efficiency, social impact, and level of success. This evaluation serves as the basis for policy improvements in the subsequent period. Overall, the scope of managerial economics demonstrates that this discipline is not only concerned with financial management but also serves as the analytical foundation for the entire strategic decision-making process in local government. Managerial economics serves primarily as a tool to support rational, systematic, and data-driven decision-making. Organizational decisions supported by economic analysis are better able to optimize the use of resources and enhance the effectiveness of achieving organizational goals.

Decision making is one of the primary functions of management that determines an organization's success in achieving its established goals. Every organization, whether in the private or public sector, is constantly faced with various choices that require decisions that are appropriate, effective, and accountable. In the context of local government, decision-making plays a highly strategic role because the decisions made impact not only government organizations but also the well-being of the broader community.

Conceptually, decision-making is a systematic process of selecting the best course of action from several available options based on information, analysis, and specific considerations to achieve organizational goals (Robbins & Coulter, 2021). This process involves identifying problems, gathering information, developing various alternative solutions, evaluating each alternative, selecting the best alternative, implementing the decision, and evaluating the results of the decision. According to Simon (1977), decision-making is at the core of managerial activities and is carried out through three main stages: Intelligence, Design, and Choice. The Intelligence stage is the process of identifying problems and gathering relevant information. The Design stage involves developing various alternatives for solving problems, while the Choice stage is the process of selecting the alternative deemed most optimal based on various predetermined criteria.

Simon also introduced the concept of bounded rationality, which holds that decision-makers' ability to act rationally is constrained by limitations in information, time, resources, and individual capacity to process information. Therefore, in organizational practice, the decisions made are often "good enough" (satisficing) rather than truly optimal. This concept is highly relevant to local government administration, which frequently faces data limitations, political dynamics, pressure from public interests, and regulatory changes.

From a managerial economics perspective, decision-making is based on the principle of economic rationality, which involves choosing the alternative that provides the greatest benefit at the most efficient cost or sacrifice. This approach emphasizes the importance of using empirical data, quantitative analysis, and cost-benefit evaluations before a decision is made. Thus, the resulting decisions take into account

not only administrative aspects but also economic, social, and sustainability considerations.

Decision-making can also be classified into several types, namely programmed decisions and non-programmed decisions. Programmed decisions generally relate to routine activities that follow standard procedures, whereas non-programmed decisions are complex, strategic, and require in-depth analysis because they involve new problems for which there are no clear procedures for resolution. Most strategic decisions in local government fall into the category of non-programmed decisions because they relate to public policy, regional development, budget management, and public services.

Thus, decision-making theory provides a conceptual foundation for the application of managerial economics in local government organizations. The more rational the decision-making process, the greater the likelihood of achieving regional development goals effectively, efficiently, and sustainably.

Strategic decision-making is the process of establishing policies that have a long-term impact on the achievement of an organization's vision, mission, and objectives. In the context of local government, strategic decisions encompass various development policies that affect social, economic, and environmental conditions, as well as the quality of public services provided to the community.

As the administrators of government affairs, local governments have a responsibility to manage public resources effectively and efficiently. Therefore, every strategic decision must take into account various factors, such as the region's fiscal condition, community needs, local economic potential, national regulations, institutional capacity, and the dynamics of the external environment.

According to Bryson (2018), strategic decisions in public organizations are those related to the organization's future direction and that determine how the organization creates public value. These decisions are typically long-term in nature, involve many stakeholders, and have far-reaching consequences for society.

In the practice of local government, strategic decisions take the form of various policies, including:

- Formulation of the Regional Medium-Term Development Plan (RPJMD).
- Formulation of the Regional Government Work Plan (RKPD).
- Setting regional development priorities.
- Formulation of the Regional Revenue and Expenditure Budget (APBD).
- Regional investment policies.
- Development of public infrastructure.
- Digital transformation of government.
- Bureaucratic reform.
- Public service development.

These decisions require comprehensive analysis because they involve the use of large amounts of public resources. Errors in decision-making can lead to budgetary inefficiencies, poor quality of public services, and even a decline in public trust in local governments. The application of managerial economics in strategic decision-making provides a more objective analytical framework through the use of data, cost-benefit analysis, risk analysis, and forecasting techniques. With this approach, local governments can select policy alternatives that yield the greatest social benefits while making optimal use of resources.

In addition, the application of evidence-based policy principles further reinforces the importance of managerial economics in local government. Policies

based on empirical evidence tend to be more effective than those based solely on intuition or political considerations. Therefore, the ability of local governments to process data and conduct economic analysis is a key factor in improving the quality of strategic decision-making. Thus, strategic decision-making in local government is a complex and multidimensional process. Its success is greatly influenced by the organization's ability to systematically apply the principles of managerial economics so that the resulting policies can provide optimal benefits to the community.

Cost-benefit analysis (*CBA*) is one of the primary tools in managerial economics used to evaluate the feasibility of a program, project, or policy by comparing the total costs incurred with the benefits generated. This analysis aims to ensure that a decision yields greater social and economic benefits than the costs it entails. In public-sector organizations, CBA is a crucial tool because the government manages resources derived from the public through tax revenues, fees, and other sources of income. Therefore, every use of the budget must be able to provide tangible added value for the public's well-being.

According to Boardman et al. (2018), cost-benefit analysis is a systematic method for identifying, measuring, and comparing all the costs and benefits of a policy in monetary terms so that it can be determined whether the policy is worth implementing.

The steps involved in conducting a cost-benefit analysis include:

1. Identify the objectives of the program or policy.
2. Identify all direct and indirect costs.
3. Identify the economic, social, and environmental benefits.
4. Monetize costs and benefits where possible.
5. Calculate *the present value* using a discount rate.
6. Compare the benefits and costs.
7. Make decisions based on the results of the analysis.

In local government, cost-benefit analysis is widely used in the evaluation of infrastructure development projects, the construction of hospitals, schools, irrigation systems, public transportation, industrial park development, and public service programs. The application of CBA helps local governments determine development priorities that provide the greatest benefits for improving community well-being. In addition, this analysis also enhances transparency and accountability in the use of public funds, as every decision is based on rational and justifiable calculations.

Nevertheless, the application of cost-benefit analysis in the public sector faces its own challenges, particularly in measuring nonfinancial social benefits, such as improved quality of life, equitable development, public satisfaction, and environmental sustainability. Therefore, economic analysis must be integrated with social, political, and environmental considerations so that the resulting decisions truly reflect the public interest as a whole.

Demand analysis and forecasting are key components of managerial economics used to estimate future needs so that organizations can develop appropriate strategies. In the context of local government, these analyses serve as the foundation for formulating development policies, allocating budgets, and providing public services that meet the needs of the community.

Demand analysis aims to identify the level of public need for public goods or services. Unlike the private sector, which is oriented toward market demand, local governments focus on demand for public services such as education, health care, civil registration, clean water, transportation, and infrastructure. Demand for public services is influenced by various factors, including population size, income levels,

regional economic growth, urbanization, demographic changes, technological advancements, and government policies. Therefore, local governments require accurate and up-to-date data to accurately identify the needs of the community.

Meanwhile, forecasting is the process of estimating future conditions based on historical data, trends, and various influencing variables. In managerial economics, forecasting techniques are used to help decision-makers anticipate changes in the environment so that organizations can formulate adaptive strategies. Commonly used forecasting methods include qualitative approaches, such as the Delphi method and expert opinion, as well as quantitative approaches, such as trend analysis, moving averages, exponential smoothing, and regression analysis. The choice of method depends on the characteristics of the data, the purpose of the analysis, and the availability of information.

For local governments, the results of demand analysis and forecasting are used to prepare local revenue projections, estimate expenditure needs, determine development priorities, anticipate increased demand for public services, and design policies that respond to changes in the community's socioeconomic conditions. Thus, demand analysis and forecasting are important tools in supporting evidence-based strategic decision-making. Integrating these two approaches with the principles of managerial economics will improve the accuracy of planning, the efficiency of budget utilization, and the effectiveness of regional development program implementation.

Decision-making in the public sector is, by its very nature, always confronted with various forms of uncertainty and risk. Risk is the probability that an event will occur that could affect the achievement of an organization's objectives, either positively or negatively. In the context of local government, risks can stem from internal factors such as limited human resources, weaknesses in internal control systems, and budget constraints as well as external factors, such as regulatory changes, macroeconomic conditions, political dynamics, natural disasters, technological developments, and shifting community needs.

From a managerial economics perspective, risk analysis is a systematic process for identifying, measuring, evaluating, and controlling various risks that may arise as a consequence of a decision. This analysis aims to reduce the level of uncertainty so that decision-makers can select the policy alternative that provides the greatest benefit at an acceptable level of risk. According to Hillier et al. (2021), risk analysis is an integral part of the decision-making process because each decision alternative has different consequences for the achievement of organizational goals. Therefore, effective decision-making must take into account the probability of a risk occurring as well as its impact on the organization. In local government organizations, risk analysis plays a strategic role because every public policy affects the broader public interest. Errors in decision-making not only result in financial losses but can also lower the quality of public services, hinder regional development, and reduce public trust in the government. The concept of *Good Governance* has emerged as a new paradigm in governance that emphasizes the importance of effective, efficient, transparent, accountable, participatory, and public-service-oriented governance. This paradigm arose in response to public demands for a clean government one free from corruption, collusion, and nepotism that is capable of delivering high-quality public services.

According to the United Nations Development Programme (UNDP), good governance is a process of government administration that involves synergy between the government, the private sector, and the public in managing various economic, social, and political resources responsibly to achieve sustainable development.

Meanwhile, the World Bank defines Good Governance as the effective exercise of state power in managing economic and social resources to support national development and improve public welfare. In the context of local government, the application of Good Governance principles is crucial, given that local governments have broad authority over managing budgets, local assets, public services, and regional development. Therefore, every strategic decision made must be based on the principles of good governance.

RESEARCH METHODS

This study employs a qualitative approach in the form of a literature review (library research). This approach was chosen because the objective of the study is to comprehensively analyze the role of managerial economics in strategic decision-making at the local government level based on theories, concepts, previous research findings, and various relevant regulations.

According to Creswell (2018), qualitative research aims to gain an in-depth understanding of a phenomenon through the interpretation of various sources of information. In literature review research, data are obtained not through surveys or interviews, but through a systematic review of the literature relevant to the research focus.

The literature review approach allows researchers to gain a comprehensive understanding of managerial economics concepts and their implementation in public sector organizations, particularly local governments. The data used in this study consists of **secondary data** obtained from various scientific sources and official documents, including:

1. Books on managerial economics, public economics, public administration, and strategic management.
2. National and international journal articles discussing managerial economics, strategic decision-making, governance, and public policy.
3. Regulations regarding local government, local financial management, and the Electronic-Based Government System (SPBE).
4. Publications from national and international institutions, such as the Central Statistics Agency (BPS), the Ministry of Home Affairs, the Ministry of State Apparatus and Bureaucratic Reform (PANRB), the OECD, the World Bank, and the UNDP.
5. Government policy documents related to regional development planning.

Data collection was conducted using a **literature review** approach, which involves identifying, collecting, reviewing, and organizing various sources of literature relevant to the research topic.

RESULTS AND DISCUSSION

Local governments are public-sector organizations responsible for managing public resources to achieve regional development goals. In carrying out these functions, local governments face a variety of strategic decisions related to policy formulation, budget management, infrastructure development, public services, regional investment, and community empowerment.

The complexity of regional development issues means that decision-making can no longer be based solely on intuition, experience, or administrative considerations alone. Instead, decisions must be based on rational, systematic, and

data-driven analysis. It is in this context that managerial economics plays a crucial role.

Managerial economics provides a set of concepts, theories, and analytical tools that help local governments select policy alternatives that yield the greatest social benefits through the efficient use of resources. Conceptually, the application of managerial economics in local government includes:

- analysis of community needs;
- cost analysis;
- benefit analysis;
- risk analysis;
- investment analysis;
- program efficiency analysis;
- policy evaluation.

Through this approach, local governments can make more objective decisions and effectively address the needs of the community.

One of the key contributions of managerial economics is providing an analytical framework for public policy formulation. Every year, local governments are faced with various policy choices, such as:

- hospital construction;
- road construction;
- school construction;
- tourism area development;
- digitization of public services;
- agricultural subsidies;
- MSME development.

All of these alternatives have different budgetary implications. Using a managerial economics approach, each alternative is analyzed based on:

- the amount of costs to be incurred;
- economic benefits;
- social benefits;
- environmental benefits;
- implementation risks;
- long-term impacts.

Thus, the government can select programs that offer the highest level of efficiency while also providing the greatest public benefits.

Local government resources are always limited. These limitations include:

- the Regional Budget (APBD);
- civil service personnel;
- local assets;
- implementation time;
- organizational capacity.

Meanwhile, public needs continue to rise every year. Under such conditions, the principle of scarcity which forms the foundation of economics is essential. Managerial economics helps the government determine development priorities based on urgency, social benefits, and local fiscal capacity. Thus, every rupiah spent by the government can provide maximum benefit to the public. This concept aligns with the “value for money” principle, which emphasizes three main aspects:

- economy;
- efficiency;
- effectiveness.

One of the most widely used tools in managerial economics is **Cost-Benefit Analysis (CBA)**. In local government practice, CBA is used before a development project is implemented. For example, the government plans to build a regional hospital. Through CBA, the following are identified:

Construction

- construction costs;
- operating costs;
- maintenance costs;
- human resources costs;
- technology costs.

Benefits

- improved healthcare services;
- reduced mortality rates;
- increased community productivity;
- local economic growth;
- increased local government revenue.

If the benefits outweigh the total costs incurred, then the project is deemed feasible. This approach makes the decision-making process more objective and accountable both academically and administratively.

Every public policy carries risks. These risks may include:

- project failure;
- budget overruns;
- low public participation;
- regulatory changes;
- natural disasters;
- economic instability.

Through managerial economics, all risks are analyzed before decisions are made. The government can then develop mitigation strategies to minimize potential losses. For example, before developing a new tourist area, local governments need to analyze:

- potential tourist visits;
- the risk of environmental damage;
- infrastructure readiness;
- community readiness;
- investment feasibility.

This approach results in policies that are more adaptive to changes in the strategic environment. The digital age has transformed government decision-making. Decisions can no longer be based solely on bureaucratic experience; they must be supported by accurate data. Managerial economics utilizes various analytical techniques such as:

- statistical analysis;
- regression;
- forecasting;
- simulation;
- sensitivity analysis;
- scenario analysis.

Through this approach, local governments are able to:

- predict community needs;
- estimate local government revenue;
- identify priority sectors;

- determine development priorities;
- evaluate program effectiveness.

The better the quality of the data used, the higher the quality of the resulting decisions.

The application of managerial economics makes a significant contribution to the realization of the principles of *good governance*. Systematic analysis helps local governments formulate policies in a transparent and evidence-based manner, ensuring that budget expenditures are accountable to the public. Decisions based on cost-benefit analysis, risk assessment, and evaluation of alternatives also enhance the efficiency and effectiveness of development programs. Furthermore, managerial economics strengthens accountability because every decision has a clear and evaluable analytical basis. Transparent information regarding the rationale behind a policy choice encourages public participation and enhances public trust in local governments. Thus, the implementation of managerial economics not only improves the quality of strategic decisions but also strengthens good governance.

The results of this study indicate that managerial economics has broad practical implications for the administration of local government. Local governments need to strengthen the capacity of their officials to conduct economic analysis, utilize high-quality data, and integrate the results of such analysis into the planning and budgeting processes. Developing management information systems, implementing data analytics, and enhancing officials' competencies in cost-benefit analysis, forecasting, and risk management are strategic steps to support more adaptive decision-making.

Furthermore, the integration of managerial economics with development planning mechanisms, performance-based budgeting, and program evaluation will enhance the effectiveness of public resource allocation. Consequently, local governments can formulate policies that are more targeted, efficient, and focused on improving public welfare.

The study's findings indicate that the application of managerial economics has significant implications for improving the quality of strategic decision-making in local governments. In an era of decentralization and increasingly complex governance, local governments are required to produce policies that not only comply with legal regulations but are also efficient, effective, adaptive, and capable of providing optimal benefits to the community. Therefore, the application of managerial economics principles needs to be integrated into all stages of the public policy process—from planning and budgeting to implementation and evaluation.

The first policy implication is the need to strengthen the analytical capacity of local government officials. Strategic decision-making can no longer be based solely on bureaucratic experience or the intuition of leaders; rather, it must be supported by the ability to conduct economic analysis, cost-benefit analysis, risk analysis, and forecasting techniques. To that end, local governments need to implement ongoing competency development programs for their staff, particularly in the areas of managerial economics, policy analysis, statistics, and data management.

Second, local governments need to strengthen the implementation of evidence-based policies through the use of accurate, up-to-date, and integrated data. The development of regional development information systems, the use of big data, data analytics, and artificial intelligence (AI) can improve the quality of information that forms the basis for decision-making. With adequate data support, local governments will be better able to identify community needs, predict the impact of policies, and objectively determine development priorities.

Third, the research findings indicate the importance of applying Cost-Benefit Analysis (CBA) to every strategic policy involving the use of the local budget. Before a program or project is implemented, local governments need to evaluate all the costs and benefits that will arise, including economic, social, and environmental benefits. This approach can minimize budgetary waste and ensure that every policy provides optimal added value to the community.

Fourth, local governments need to integrate risk management into the public policy-making process. Fiscal, operational, legal, environmental, and social risks must be identified as early as the planning stage so that mitigation strategies can be developed more effectively. Integrating risk analysis with the Government Internal Control System (SPIP) will improve the quality of governance and strengthen accountability in government administration.

Fifth, the implementation of managerial economics must be directed toward strengthening the principles of good governance, namely transparency, accountability, participation, effectiveness, efficiency, and the rule of law. Every strategic decision must be based on scientifically and administratively sound analysis, thereby enhancing public trust in local governments.

Overall, the policy implications of this study indicate that managerial economics is not only a discipline within applied economics but also a strategic tool for improving the quality of local government governance. The consistent implementation of managerial economics will support the creation of a local government that is professional, adaptive, innovative, and focused on improving public welfare.

Conclusion

Based on the results of a literature review on the role of managerial economics in strategic decision-making in local government, it can be concluded that managerial economics is a highly relevant approach for supporting effective, efficient, and accountable governance. The integration of economic theory with management principles enables local governments to make more rational decisions through the use of various analytical tools, such as cost-benefit analysis, demand analysis, forecasting techniques, risk analysis, and policy alternative evaluation.

The application of managerial economics makes a tangible contribution to improving the quality of strategic decision-making. Through this approach, local governments are able to optimize the allocation of limited resources, set development priorities objectively, improve budget efficiency, and strengthen accountability in governance. In addition, managerial economics supports the implementation of evidence-based policies so that the resulting policies are more adaptive to the dynamics of the strategic environment and the needs of the community.

This study also shows that the application of managerial economics is closely linked to the realization of the principles of good governance. The use of economic analysis in the processes of planning, budgeting, implementation, and evaluation of policies will enhance transparency, effectiveness, efficiency, and accountability in local government. Thus, managerial economics can be viewed as one of the key foundations for strengthening local government governance that is oriented toward the creation of public value and the improvement of community well-being.

Nevertheless, the successful implementation of managerial economics depends heavily on the availability of high-quality data, human resource capacity, information technology support, and the commitment of local governments to evidence-based decision-making. Therefore, strengthening the competencies of

government officials, developing information systems, and fostering an organizational culture that supports the use of scientific analysis will be key priorities for local governments in the future.

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