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The Effect of Financial Reporting Quality, Corporate Governance, and Asset Management on Financial Distress in The Syariah Savings, Loans and Financing Cooperative Syirkah Fastabiqul Khoirot Lumajang

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Abstract: *This study aims to empirically examine the influence of financial reporting quality, corporate governance, and asset management on financial distress at the Syirkah Fastabiqul Khoirot Lumajang Sharia Savings and Loans Cooperative (KSPPS). Using a quantitative method with a causality approach, the research data were sourced from monthly financial reports and annual sharia supervision reports. Data analysis was performed using multiple linear regression techniques after meeting the classical assumption test. The results indicate that transparent financial reporting quality and sharia-based corporate governance have a significant negative effect on reducing the risk of financial distress. Similarly, diligent asset management through controlling the non-performing financing ratio significantly maintains the cooperative's liquidity stability from the threat of financial distress. The implementation of trustworthy governance and the preparation of accountable financial reporting are key to maintaining the operational sustainability of sharia microfinance institutions.*
Keywords: *Financial Reporting Quality, Corporate Governance, Asset Management, Financial Distress, KSPPS.*

A. INTRODUCTION

The development of Islamic financial institutions in Indonesia, particularly the Islamic Savings and Loans and Financing Cooperatives (KSPPS), demonstrates their increasingly strategic role in strengthening the people's economy and the MSME sector. However, as financial intermediation-based institutions, KSPPS are exposed to external economic fluctuations and internal risks that have the potential to trigger financial distress.

Conceptual Definition: Financial distress is defined as the stage of financial decline that occurs before an entity experiences bankruptcy or legal liquidation. Given its function of managing third-party funds (members), early detection of this potential is fundamental to ensuring business sustainability.

There are several internal factors that theoretically determine the financial strength of a cooperative:

1. Quality of Financial Reporting (X_1): Reflects the level of transparency of information presented to members and the supervisory board, which serves to reduce information asymmetry.
2. Corporate Governance (X_2): Based on Sharia principles—such as amanah (trustworthiness), shiddiq (truthfulness), tabligh (discipline), and fathanah (discipline)—it serves as a moral bulwark in preventing operational irregularities that could harm the cooperative. In line with Surah An-Nisa verse 5, asset management must be entrusted to competent parties to prevent social and financial harm.
3. Asset Management (X_3): Poor asset management—particularly a high ratio of non-performing financing—is often the primary trigger for cash flow disruptions in Sharia entities.

Although numerous studies on financial distress have been conducted, the majority of empirical literature focuses on the conventional banking sector and large-scale manufacturing companies listed on the stock exchange. Research on financial distress in Islamic microfinance institutions (SMIs) in the form of cooperatives is relatively limited. This study aims to fill this research gap by focusing on KSPPS Syirkah Fastabiqul Khoirot Lumajang.

B. METHODS

This study uses a quantitative causality research design, which aims to test the direction of the relationship and the significance of the influence of independent variables on the dependent variable. The object of this study is KSPPS Syirkah Fastabiqul Khoirot Lumajang. The data used are secondary data in the form of monthly financial reports, balance sheets, profit and loss statements, and annual internal supervision reports from the supervisory board.

2.1 Population and Sample

The population in this study includes all operational reports of the cooperative since its formal establishment. The sampling technique used purposive sampling with the following criteria:

1. Availability of continuous monthly financial reports.
2. Internally verified annual governance reports.
3. Completeness of research variables during the observation period.

Based on these criteria, a time series data sample of 36 months (3 years of continuous observation) was obtained.

2.2 Data Analysis Model

The data analysis method used was Multiple Linear Regression Analysis. Before conducting the regression test, the model was first tested with a series of Classical Assumption Tests (Normality, Multicollinearity,

Heteroscedasticity, and Autocorrelation). The regression model formulation used is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:

- **Y = Financial Distress**
- **α = Constant**
- **X_1 = Financial Reporting Quality**
- **X_2 = Corporate Governance**
- **X_3 = Asset Management**
- **$\beta_1, \beta_2, \beta_3$ = Regression Coefficients**
- **e = Error term**

C. RESULT AND DISCUSSION

3.1 Classical Assumption Test Results

All data were confirmed to have passed the classical assumption violations. The test results showed:

Normality Test: Data were normally distributed with a Kolmogorov-Smirnov value of 0.05.

Tabel 3.13 Uji Normalitas

One-Sample Kolmogorov-Smirnov Test

Residual		Unstandardized
N		32
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	10.598
Most Extreme Differences	Absolute	.138
	Positive	.138
	Negative	-.124
Test Statistic		.138
Asymp. Sig. (2-tailed)[c]		.132

Uji Multikolinieritas: Nilai *Tolerance* $> 0,10$ dan *Variance Inflation Factor* (VIF) < 10 untuk semua variabel, bebas dari gejala multikolinieritas.

Tabel 3.14 Uji Multikolonieritas

Coefficients[a]

PERUSAHAAN

Model		Collinearity Statistics Tolerance	VIF
1	REPORTING QUALITY FINANCE	.981	1.019
	GOVERNANCE COMPANY	.673	1.486
	ASSET MANAGEMENT	.663	1.508

a. Dependent Variable: *FINANCIAL DISTRESS*

Uji Heteroskedastisitas: The Glejser test did not show any significant pattern (residual variance was constant/homoscedasticity).

Tabel 3.15 Uji Heteroskedasitas

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-14.910	21.923		-.680	.501
	X1	0.187	.159	.214	1.176	0.248
	X2	0.498	.402	.285	1.238	0.225
	X3	-0.312	.248	-.292	-1.257	0.217

a. Dependent Variable: Abs_RES

Uji Autokorelasi: The Durbin-Watson value is in the autocorrelation-free area.

3.2 Multiple Linear Regression Analysis

Based on the results of data processing using statistical software, the estimated regression coefficients are summarized in the following table:

Variable	Regression Coefficient	t-Statistic	Significance	Information
Constant	12,415	3,112	0,004	Significant
Financial Reporting Quality (X_1)	-0,345	-2,891	0,007	Significant
Corporate governance (X_2)	-0,412	-3,421	0,002	Significant
Asset Management (X_3)	-0,298	-2,114	0,042	Significant
R-Square (R^2)	0,684			
F-Statistik	23,115		0,000	Significant

Source: Processed Secondary Data (2026)

Based on the results above, the multiple linear regression equation formed is:

$$Y = 12.415 - 0.345X_1 - 0.412X_2 - 0.298X_3$$

The results of the simultaneous test (F-test) yielded a significance value of 0.000 (<0.05), proving that financial reporting quality, corporate governance, and asset management collectively have a significant effect on the potential for financial distress at KSPPS Syirkah Fastabiqul Khoirot Lumajang. The R^2 value of 0.684 indicates that variations in the three independent variables can explain 68.4% of the risk of financial distress.

3.3 Discussion of Partial Effects

3.3.1 The Effect of Financial Reporting Quality on Financial Distress

The partial t-test results show that the Financial Reporting Quality variable (X_1) has a negative directional coefficient of -0.345 with a significance value of 0.007 (<0.05). This indicates that Financial Reporting Quality has a negative and significant effect on the level of financial distress vulnerability.

Accurately presented financial reports in accordance with Sharia Financial Accounting Standards minimize information asymmetry and provide an early warning system for management to take corrective action before the cooperative falls into a liquidity crisis.

3.3.2 The Influence of Corporate Governance on Financial Distress

The Corporate Governance variable (X_2) has a negative regression coefficient of -0.412 with a significance level of 0.002 (<0.05). This empirical finding confirms that the implementation of strong corporate governance based on Sharia compliance has a significant effect on reducing the risk of financial distress.

Strict supervision by the Sharia Supervisory Board (SSB) is able to limit management deviant behavior (moral hazard) in disbursing high-risk financing. The implementation of the concepts of trust, transparency, and accountability within the KSPPS Syirkah Fastabiqul Khoirot Lumajang aligns with the affirmation in Surah An-Nisa, verse 5, which states that the management of community funds must be carried out by parties with high moral and managerial credibility to avoid economic harm.

3.3.3 The Influence of Asset Management on Financial Distress

The Asset Management variable (X_3) has a negative directional coefficient of -0.298 with a significance value of 0.042 (<0.05). This indicates that asset management efficiency has a negative and significant effect on the vulnerability to financial distress.

The ability of cooperative management to turn over productive assets and maintain a healthy financing portfolio (minimizing non-performing financing) plays a crucial role in supplying continuous cash inflow to the cooperative. Conversely, poor asset management, such as the accumulation of bad debts, will freeze liquidity, erode working capital, and ultimately drag the cooperative into financial distress.

4. Concluding Remarks

4.1 Conclusion

This study concludes that, both simultaneously and partially, Financial Reporting Quality, Corporate Governance, and Asset Management have a negative and significant impact on mitigating the risk of financial distress at KSPPS Syirkah Fastabiqul Khoirot Lumajang. Transparent financial reporting, trustworthy governance in accordance with sharia principles, and prudent asset portfolio management have proven to be key pillars in maintaining the cooperative's financial stability from the threat of structural bankruptcy.

4.2 Application Suggestions

1. For KSPPS Management: Continue upgrading human resource (HR) competencies in contemporary Islamic financial accounting standards to ensure the quality of financial reporting information.
2. For the Sharia Supervisory Board (SSB): Increased monitoring of compliance with Islamic transactions is recommended to eliminate reputational and operational risks.
3. For Financing Managers: Tighten analysis of the feasibility of fund disbursement (5C Principles) is mandatory to reduce the increase in problematic financing that could threaten the cooperative's liquidity.

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