

The Influence of Financial Distress on Good University Controlled by the Type of Foundation in Private Universities

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Abstract

This study tests and analyses whether financial distress can affect a good university. In addition, it examines the role of the type of foundation in managing the university to analyze the relationship between financial distress and a good university. The population in this study consisted of lecturers or employees from public and private universities; the sample consisted of 100 respondents using a purposive sampling technique. Data collection was carried out by distributing questionnaires using a Likert scale. The data analysis technique was carried out with the help of SmartPLS 4 software to evaluate the outer and inner models. The results of this study indicate that financial distress has a positive and significant effect on a good university, and the type of foundation has a negative and insignificant effect on financial distress and a good university. So, the type of foundation does not influence financial distress and a good university.

Keywords: financial distress, good university, type of foundation

1. Introduction

The increasingly fierce competition in finding employment requires educational institutions, including universities, to produce quality graduates and graduates who are ready to work according to their respective competencies (Rajagukguk, 2009). The quality of graduates who are ready to work must be supported by the quality standards of education set in each country (Logli, 2016). With the quality of education, the country's human resources are ready to compete in the labour market. Vice versa, if the quality of education is low, the resulting human resources will be challenging to compete in the labour market (Suti, 2011). Among the implications of the globalization of competition in the world of education, there are opportunities for employment for foreign workers (Sari, 2019), and regulations that open up opportunities for foreign educational institutions in Indonesia (Abidin, 2016) (Amaliya Nasucha, 2016). Thus, competition in the job market will be increasingly severe and very worrying, and can even reduce the existence of domestic universities.

Higher education is part of an organization with entities formed by applicable law based on its formation's vision, mission, and objectives to improve education quality (Logli, 2016). Quality universities must continuously improve performance in developing the trauma of higher education. As a specific entity in the world of education, universities certainly have specific goals for the internal and external environment characteristics. Each college has its goals and ideals, which are stated in the vision and mission and compiled by stakeholders who formulate them (Nur Sayidah, 2019).

Many strategic elements must be improved and enhanced in the development of Universities include the quality of academic programs, the quality of human resources, the quality of infrastructure, and a supportive academic atmosphere. For these strategic elements to be

improved, they need to be supported by methods to realize them, namely with good or quality governance. Therefore, to face the increasingly high level of competition among universities in Indonesia, each university needs fundamental changes to compete in the era of advances in information technology, let alone targeting to participate in global competition (Suti et al., 2020).

2. Literature Review

Financial Distress, Good University. Financial distress is a decline in financial condition that occurs before bankruptcy. Financial distress starts from the company's inability to fulfil its obligations, especially short-term obligations, including liquidity obligations, and also includes obligations in the solvency category (Simanjuntak et al., 2017). Financial distress occurs before bankruptcy and when the company experiences several years of losses. The bankruptcy prediction model that has emerged is an anticipation and early warning system for financial distress because the model can be used as a means to identify and even improve conditions before reaching a crisis or bankruptcy condition. Financial statements can be used as a basis for measuring the financial distress condition of a company through financial statement analysis using existing financial ratios (Evanny Indri Hapsari, 2012).

Company incapacity or failure can be caused by two things, namely economic failure and financial failure. The economic failure of a company is associated with an imbalance between income and expenses. Meanwhile, a company is categorized as financially failed if it cannot pay its obligations at maturity even though total assets exceed its liabilities (Aryati & Manao, 2002) (Sihombing, 2023). One of the most common causes of corporate bankruptcy is financial distress. This condition makes investors and creditors worry that the company will experience failure or financial difficulties that can lead to bankruptcy.

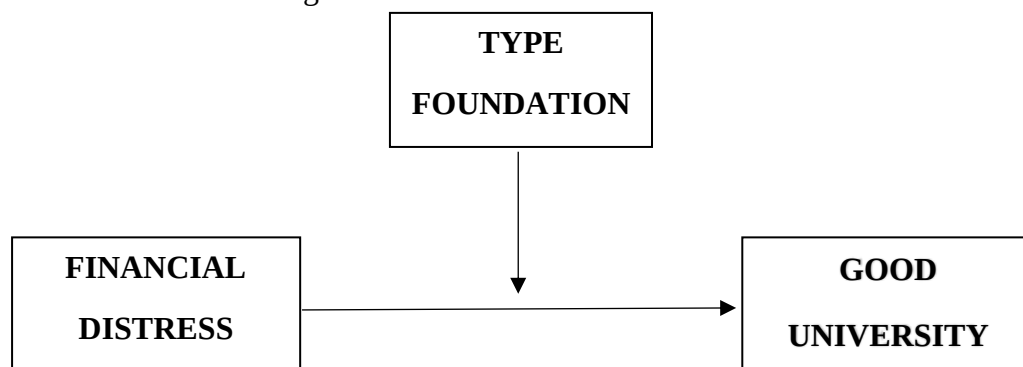
According to (Minow, 2003) good corporate governance is a system that regulates and controls the company, creating added value for all stakeholders. According to him, several basic principles must be considered in good corporate governance, namely (1) transparency, namely openness in carrying out the decision-making process and openness in conveying material and relevant information about the company; (2) accountability, namely clarity of functions, structures, systems, and responsibilities of company organs so that company management can be carried out effectively. The management of the company should be based on the division of power between the managers of the company, who are responsible for day-to-day operations, and also the shareholders, who are represented by the board of directors; (3) responsibility, namely the compliance of company management with sound corporate principles, laws and regulations, and applicable legal provisions; (4) independence, namely a company is managed professionally without any conflict of interest, influence, or pressure from management that is not by laws and regulations and sound corporate principles and (5) fairness, namely fair and equal treatment in fulfilling the rights of stakeholders, arising in agreements and laws and regulations.

Implementing good university governance is expected to increase added value for all stakeholders. The long-term goal expected from implementing good university governance in private universities is to improve their role as educational universities and enable them to develop into research universities and entrepreneurial universities. One of the indicators of an "A" accredited university is the implementation of good university governance. If the

university has implemented good governance, it will likely get "A" accreditation (Hanifah, 2018).

There are five principles of Good University Governance (GUG), namely (1) transparency, (2) accountability, (3) responsibility, (4) independence, and (5) fairness. These principles are needed by universities in order to achieve sustainable performance while maintaining their stakeholders (Wijatno, 2009). Higher education governance has become a pillar for higher education to achieve its vision and mission to become a superior educational institution in developing science, professionalism, research, and community service. It is similar to the principles that apply in an organization (Hussin & Asimiran, 2010). To ensure the sustainability of universities, managers must apply the concept of Good University Governance (GUG). Thus, the university guarantees growth and sustainability. Education management is a public service, so public accountability and good governance are needed to establish educational institutions. In this case, for private universities, including Kopertis and the Directorate of Higher Education (DIKTI) (Sukirman & Maylia Pramono Sari, 2012) (Muhi, 2011).

Figure 1. Framework of Thought



Hypothesis:

H1: Financial distress has a significant effect on good universities.

H2: The type of foundation has a significant influence on financial distress.

H3: Foundation type has a significant influence on a good university.

3. Research Method

This research was conducted by surveying lecturers and employees in public and private universities. The research uses a quantitative approach because it is a numerical and statistical analysis using SmartPLS 4 software. The sampling technique in this research was purposive, with criteria including (1) Lecturers in both public and private universities and (2) Employees in both public and private universities. This study used a questionnaire instrument. The questionnaires were distributed and collected as many as 100 respondents. The scale technique in this study uses a Likert scale with a choice of scale 5 (strongly agree) to score 1 (strongly disagree) for all variables. More clearly, the variables studied, operational definitions, indicators, measurement scales, and reference sources can be seen in Table 1.

Table 1. Variable, Operational Definition, Indicator/item and Measurement Scale

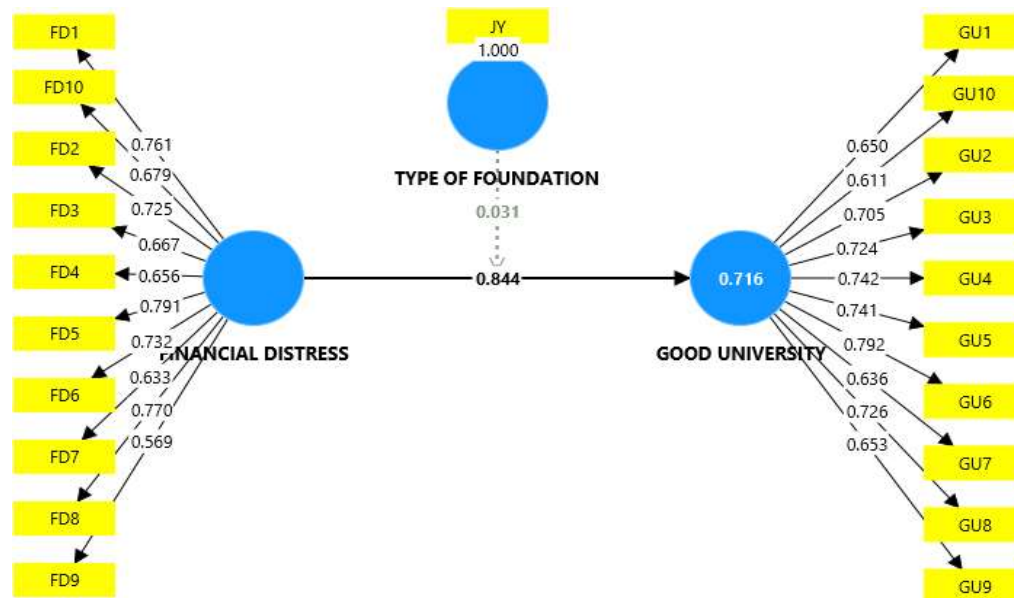
No.	Variables and references	Operational definition	Indicator/item	Measurement scale	
1	Financial Distress ((Platt & Platt, 2002) ; (Astuti et al., 2024) ;	Poor and unstable financial conditions that hinder the ability of an organization or company to achieve operational goals and maintain viability.	Consists of 6 indicators - Financial incapacity - External indicators - Discontinuation of operations or restructuring - Weak governance management - Decline in operational performance - Liquidity and Solvency Issues	Score 1 Strongly disagree	Score 5 Strongly agree
2	Good University ((Mok & Hallinger, 2013) ; (Amado Mateus & Juarez Acosta, 2022))	ratings provided by relevant stakeholders that assess perceptions of the quality, trustworthiness and excellence of the college.	Consists of 7 indicators - Transparency - Accountability - Non-Discrimination - Effective Leadership - Effectiveness and Efficiency - Fairness and Balance - Responsiveness	Score 1 Strongly disagree	Score 5 Strongly agree
3	Type of foundation (Putri Septia et al., 2017) ; (Handayani, 2018))	Types of foundations that manage universities	Consists of 3 indicators - Corporate - Family - Organization	Score 1 Strongly disagree	Score 5 Strongly agree

4. Findings and Discussions

Respondent Description. Based on the results of data recapitulation, it turns out that the majority of private universities (46%), public universities (54%), types of corporate foundations (54%), family foundations (24%), and organizational foundations (22%), male lecturers or employees (36%), and female lecturers or employees (64%).

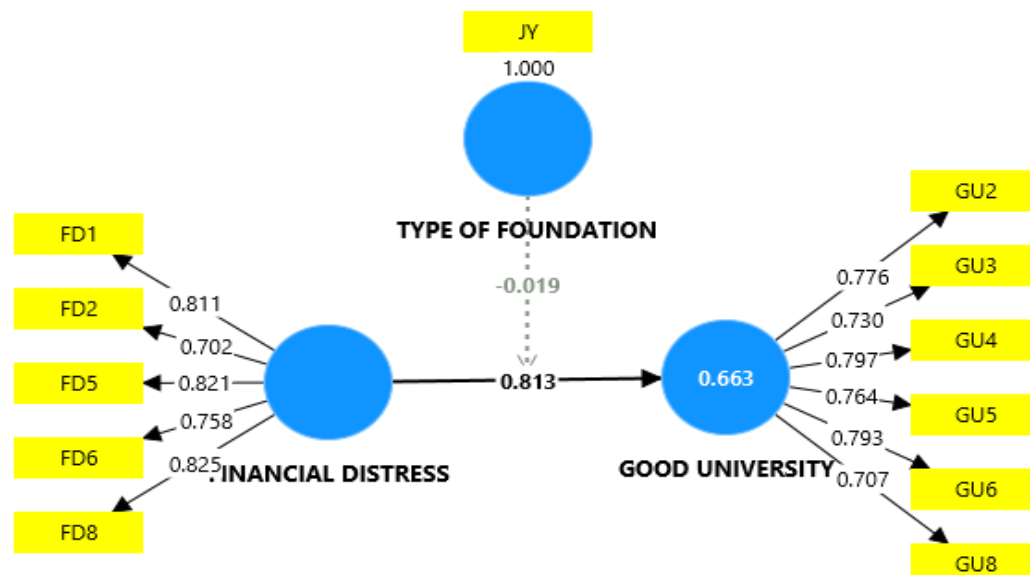
Measurement Model (Outer Model) Testing Results. Instrument testing is carried out through validity and reliability analysis using the outer model. This outer model analysis aims to ensure that the measurement instrument used is suitable as a measurement tool in research. The tests included convergent validity and reliability tests using composite reliability and Cronbach's Alpha.

Figure 1. Outer Model 1



The data processing results using SmartPLS 4 show that the outer model value or the correlation between the construct and the variable has been met, and some have not met the convergent validity test because some still have not reached a loading factor > 0.7. So, it is necessary to process the data again using variable constructs that show a loading factor value of < 0.7 that must be dropped from the model.

Figure 2. Outer Model 2



After processing the data again, the findings show that the two variables used in this study, Financial Distress and Good University, in each construct proposed to represent the variable, have shown a loading factor value > 0.7. So that the constructs for all variables are valid and no one is dropped from the model. Then, the Type of Foundation on Financial Distress and Good University has no influence or role.

Table 2. Outer Loadings

	Financial Distress	Type of Foundaation	Good University
FD1	0.811		
	0.702		
FD5	0.821		
FD6	0.758		
FD8	0.825		
TO		0.019	
GU2			0.776
			0.730
			0.797
			0.764
GU6			0.793
			0.707

Discriminant Validity and Realibity Results

Table 3. Construct reliability and validity

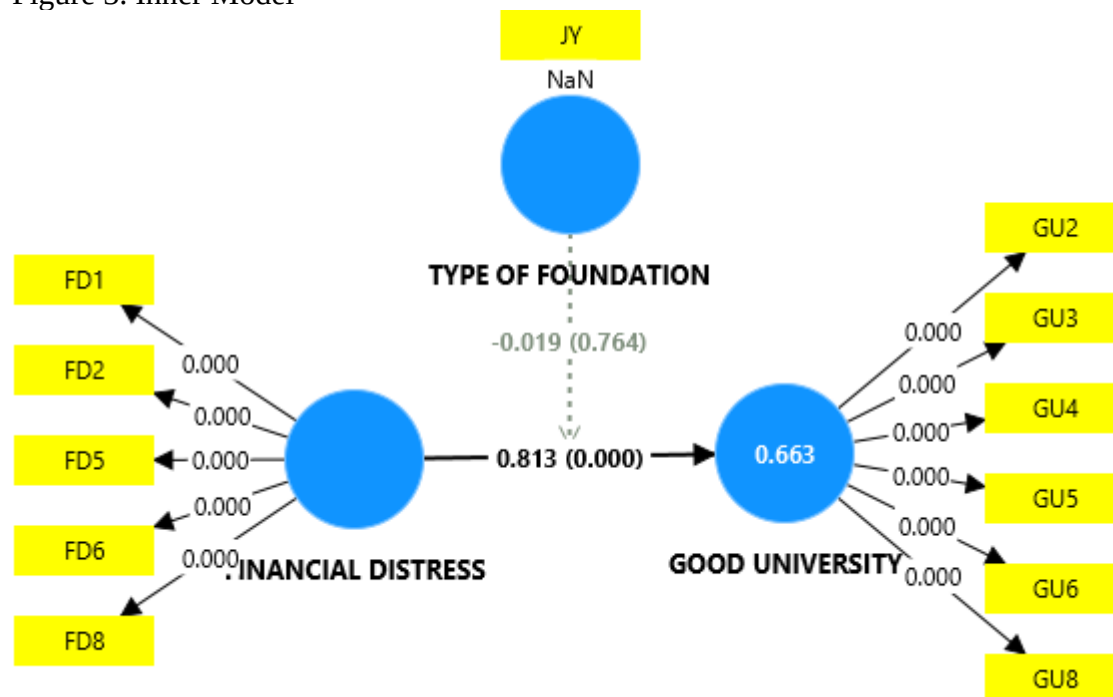
	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
FINANCIAL DISTRESS	0.844	0.851	0.889	0.616
GOOD UNIVERSITY	0.856	0.865	0.892	0.581

The findings in this study to determine whether the variable is valid and reliable can be seen from Cronbach's Alpha and Composite Reliability and the Average Variance Extracted (AVE) value. The table above shows that each construct has a Cronbach's Alpha value > 0.7, which indicates that the construct is reliable. In addition, the construct also has a Composite Reliability value > 0.7, indicating that the construct is reliable. Each construct discussed in this study is reliable and qualified.

A valid AVE value must be > 0.50. All variables in this study have good construct validity, as shown by the AVE value in Table 3, which has a value > 0.50. Thus, all instruments are valid and reliable and can be continued in hypothesis testing..

Structural Model Testing Results (Inner Model). The results of the structural model (Inner Model) using the SmartPLS4 program.

Figure 3. Inner Model



Inner model testing is carried out to determine the relationship between constructs, significant values, and R-Square related to the relationship between previously hypothesized latent variables. The structural model in this study uses bootstrapping techniques in SmartPLS 4 with a significant level of 0.05. The R-Square value of 0.663 means that a good university has a variable ability of 66.3%, which is stated to have a moderate value on the variables studied.

Table 4. R-Square Test Results

	R-square	Adjusted R-square
GOOD UNIVERSITY	0.663	0.652

Hypothesis Test Results. The hypothesis results in this research can be done by looking at the t-statistic value and p-values in the Direct Effect and Indirect Effect tables. The hypothesis will be accepted if the t-statistic > 1.96 and P-Values < 0.05.

Table 5. Direct Effect

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
FINANCIAL DISTRESS -> GOOD UNIVERSITY	0.813	0.813	0.042	19.502	0.000
TYPE OF FOUNDATION -> GOOD UNIVERSITY	0.033	0.034	0.061	0.540	0.589
TYPE OF FOUNDATION x FINANCIAL DISTRESS -> GOOD UNIVERSITY	-0.019	-0.013	0.064	0.300	0.764

Based on the path coefficient test in Table 5. obtained on the variable financial distress on the good university the path coefficient t-statistic $19.502 > 1.96$ and P-value $0.000 < 0.05$, so H1 is accepted, type of foundation on the good university the path coefficient t-statistic $0.540 < 1.96$ and P-value $0.589 > 0.05$ so H2 is rejected, type of foundation on financial distress path coefficient t-statistic $0.300 < 1.96$ and P-value $0.764 > 0.05$ so H3 is rejected. Financial distress has become one of the most important topics. Financial distress is an important topic because it can be an early signal for companies and universities to anticipate the risk of bankruptcy, primarily related to how universities manage and report the finances of their operations—the Effect of Financial Distress on Good University. Financial Distress has a positive and significant effect on a good university. It is evidenced by the calculated t-value of 19.502, greater than the t-table value of 1.96 ($19.502 > 1.96$) and a P-value of 0.000 less than 0.05 ($0.000 < 0.05$). The results of this study support previous research conducted by (Widhiastuti et al., 2019) and (Nugrahanti et al., 2020) which shows that financial distress in a company does not significantly affect the potential for financial distress. It shows that the supervisory function carried out by the Independent Commissioner in a company is not practical enough to reduce the occurrence of financial distress. It is because the existence of an Independent Commissioner in a company is only a formality to fulfil regulatory requirements, so its existence does not affect the potential for financial distress. The results of this study also provide evidence of the agency theory put forward by (Company et al., 1976) that there is an influence of financial distress on the governance of the company or college, proving the existence of rules in corporate governance that can minimize conflicts of interest between principles and agents as a result of separation of functions. The smaller the agency problem in the company, the smaller the possibility of failure.

5. Conclusion

This study aims to analyze the effect of financial distress on good universities by considering the role of the type of foundation that manages private universities. The results showed that financial distress positively and significantly affects a good university. It means difficult financial conditions can encourage universities to improve governance and achieve good university standards. However, the type of foundation that manages the university has no

significant effect on financial distress or a good university. In other words, the type of foundation, corporate, family, or organization does not determine the success of universities in managing financial distress or achieving good governance. This study used a quantitative method with respondents consisting of university lecturers and employees, and the data were analyzed using SmartPLS 4. The findings emphasize the importance of sound financial management as a step towards anticipating the risk of bankruptcy and supporting the creation of quality university governance.

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