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The Effect of External Pressure and Financial Targets on Financial Statement Fraud

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Abstract
Purpose: This study examines the impact of external pressure and financial targets on financial statement fraud in automotive manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024. This study uses leverage as a proxy for external pressure and Return on Assets (ROA) as a financial target, analyzing 60 firm-year observations from 12 companies.
Research Methodology: Multiple linear regression and descriptive statistics were employed to analyze the relationship between external pressure, financial targets, and financial statement fraud, using the Beneish M-Score model to identify fraud.
Results: The results indicate that although external pressure and financial targets fluctuate, they do not significantly affect financial statement fraud. These findings suggest that other unexamined factors may have a more substantial impact on fraud in the automotive sector.
Conclusions: This study concludes that external pressure and financial targets alone are insufficient to explain financial statement fraud. Other factors, such as corporate governance and internal controls, may play a more significant role in influencing fraudulent reporting.
Limitations: This study is limited by its focus on automotive manufacturing firms and the use of leverage and ROA as proxies for external pressure and financial targets. Future studies should explore additional factors that influence financial fraud.
Contributions: This study provides insights into the relationship between external pressures, financial targets, and financial fraud, contributing to further research in this field.

Keywords: *Decisions, Emotional AI, Important Role*

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1. Introduction

Financial statements are essential tools for companies to communicate their financial position, performance, and changes in their financial condition to stakeholders. The accuracy and reliability of these statements are crucial for decision-making by investors, creditors and management. However, companies sometimes manipulate their financial reporting to present a more favorable image, leading to financial statement fraud, which can mislead stakeholders and damage a company's reputation (Hernandez Aros, Sarmiento Morales, & Moreno Hernández, 2026; Marjohan, 2024). The increasing frequency of accounting scandals worldwide highlights that financial statement fraud remains a persistent issue in modern business practices (Hernandez Aros, Juliao-Rossi, & Gutierrez Portela, 2026).

The Association of Certified Fraud Examiners (ACFE) defines fraud as deception committed knowingly by an individual or entity, with the awareness that it may cause harm (Dewi & Ariandi, 2017; Lin, Huang, Liao, Liu, & Zhou, 2022). Financial statement fraud, a subset of fraud in financial reporting, involves the manipulation of accounting records, improper revenue recognition, and hiding liabilities. Examples such as the fictitious credit case at PT Bank Jawa Barat dan Banten (BJB) Syariah and the revenue recognition controversy at PT Garuda Indonesia show the significant impact of financial statement fraud on a company's financial health, reputation, and public trust (Adinda Priski Dhea & Sri, 2024; Junnestine & Christian, 2021; Prayoga & Purwanti, 2020).

Understanding the causes of financial statement fraud is vital for preventing and detecting it in the future. The fraud triangle theory, proposed by Cressey, identifies three key factors that lead to fraud: pressure, opportunity, and rationalization (Mahendri & Irwandi, 2016; Mahrani & Soewarno, 2018; Metals, 1922). Among these, pressurestemming from economic demands or performance targetsis a primary driver of fraudulent actions. SAS No. 99 outlines conditions such as external pressure and financial targets as common triggers for financial statement fraud, with external pressures from investors, creditors, and stock exchange requirements often intensifying the temptation for manipulation (Mahendri & Irwandi, 2016).

This study investigates the effects of external pressure and financial targets on financial statement fraud in the automotive sub-sector of manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2024. The findings contribute to the theoretical understanding of fraud-related research and provide practical insights for investors, corporate management, and stakeholders to prevent financial statement fraud. The study's results are expected to clarify the impact of external pressures and financial targets on the likelihood of financial statement fraud, addressing the inconsistencies found in previous research.

2. Literature Review

2.1 Financial Statement Fraud

Financial statement fraud occurs when a company misstates its financial information, either intentionally or unintentionally, leading to misleading statements. According to Jaswadi, Purnomo, and Sumiadji (2022), such fraud involves material misstatements in financial reports, often caused by manipulation or negligence. The Association of Certified Fraud Examiners identifies financial statement fraud as the most financially damaging type, despite its lower frequency compared to other forms of fraud. This manipulation can distort a company's performance and harm its reputation (du Toit, 2022; Handayani, Evana, & Prasetyo, 2022; Khamainy, Amalia, Cakranegara, & Indrawati, 2022).

Financial statement fraud is a serious issue that can have far-reaching consequences for both the company involved and its stakeholders, including investors, creditors and regulators. In some cases, fraudulent financial reporting is motivated by the desire to meet earnings expectations or conceal poor financial performance. This can lead to distorted financial ratios, misleading profit reports, and, ultimately, the loss of investor confidence. As noted by Dyck, Morse, and Zingales (2024), fraudulent activities in financial reporting can lead to legal repercussions, regulatory fines, and a damaged corporate reputation that may take years to repair. Detecting and preventing financial statement fraud is crucial, and organizations must implement strong internal controls, encourage ethical behavior, and regularly audit financial statements to ensure their accuracy and transparency. Preventive measures, such as training employees to recognize fraudulent activities and adopting stricter auditing practices, are essential to mitigate the risk of financial misstatements and protect the long-term viability of companies (Avriandi et al., 2023; Fang, Sami, & Zhou, 2023; Setiawan & Tundjung, 2023).

The increasing global focus on corporate governance and sustainability calls for a more integrated approach to combating financial statement fraud. Companies must recognize that their financial disclosures are not only a reflection of their performance but also of their ethical stance and commitment to responsible business practices. Stakeholders, including regulators, investors, and the public, are increasingly demanding higher levels of transparency, and any attempts to manipulate financial information can result in significant reputational damage. As a result, companies should prioritize the implementation of robust corporate governance frameworks that promote accountability and provide clear oversight of financial reporting processes. By aligning financial practices with ethical standards, organizations can build long-term trust with stakeholders, safeguard their financial health, and contribute positively to the integrity of the broader financial system.

2.2 Agency Theory and Financial Statement Fraud

Financial statement fraud often arises from conflicts of interest between management and shareholders (Arum, Wijaya, Wahyudi, & Brilliant, 2023; Magnanelli, Pirolo, & Nasta, 2017). Management may manipulate financial statements to meet performance targets or improve the company's image, driven by information asymmetries. Skousen, Smith, and Wright (2009) argue that weak corporate governance and excessive pressure on management increase fraud likelihood. Effective corporate governance and oversight are crucial for preventing such fraudulent actions. Agency theory, as discussed by Jensen and Meckling (1976), highlights the inherent conflict between the interests of shareholders (principals) and management (agents), where managers may act in their own interest rather than in the best interest of the shareholders.

This misalignment of interests can create opportunities for financial statement manipulation, particularly when management is incentivized by short-term performance goals or personal compensation schemes linked to company performance. According to Rizkiawan, Subagio, and Rizkiawan (2022), a lack of effective monitoring and control mechanisms increases the risk of fraud, especially in organizations with weak internal governance structures. Strong corporate governance practices, such as regular audits, independent oversight, and clear ethical guidelines, are critical for aligning the interests of management with those of shareholders and minimizing the chances of fraudulent activities. By fostering a culture of transparency and accountability, organizations can reduce the incentives for financial fraud and enhance stakeholder trust.

2.3 External Pressure

External pressure refers to the stress placed on management by external parties, such as investors, creditors, and regulators, to maintain strong financial performance. SAS No. 99 highlights the external pressure arising from obligations such as meeting debt covenants or fulfilling shareholder expectations. Dahme et al. (2022) state that companies with high leverage experience greater pressure due to financial risks. This pressure can lead management to manipulate financial statements to maintain a favorable image despite financial challenges.

External pressure can create significant stress for management, especially when companies face financial difficulties or fail to meet their performance expectations. Investors, creditors, and other external stakeholders often expect consistent growth and profitability, leading management to prioritize meeting these expectations, sometimes at the cost of their financial integrity. Dahme et al. (2022) further explain that companies with high leverage are particularly vulnerable to external pressure, as they must meet debt obligations while maintaining profitability. This pressure can tempt management to engage in fraudulent activities, such as inflating earnings or manipulating financial reports, to avoid negative market reactions or to breach debt covenants. Moreover, regulatory requirements, such as complying with financial reporting standards and meeting investor expectations, can add to this stress, pushing management to engage in unethical actions to maintain the company's image. Therefore, it is crucial for organizations to have strong internal controls, realistic performance targets, and transparent communication with stakeholders to mitigate the risk of financial statement fraud driven by external pressure (Arum et al., 2023; Nkoane, 2019).

2.4 Financial Targets and Fraud

Financial targets are performance goals linked to managerial compensation and incentives that can pressure management to manipulate earnings. Return on Assets (ROA) is often used to evaluate performance and set targets, and high ROA goals can push management to engage in earnings management. Several studies have shown a positive relationship between financial targets and financial statement fraud, although some conflicting findings suggest the need for further research. Understanding this relationship is crucial for identifying fraud risk in companies.

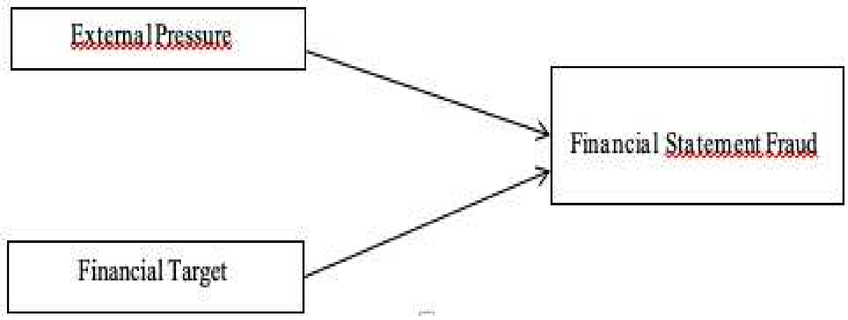

Figure 1. Research framework

Based on the fraud triangle theory proposed by Cressey, pressure is one of the primary factors that may encourage management to engage in fraudulent financial reporting. External pressure arises when management faces excessive demands from external parties, such as investors, creditors, and regulators, to maintain certain levels of financial performance. When these demands exceed the company's actual financial capability, management may be motivated to manipulate financial statements to maintain credibility and meet external expectations. Previous empirical studies have found that external pressure has a positive and significant effect on financial statement fraud (Dahme et al., 2022; Jürimäe, Vaiksaar, Purge, & Tillmann, 2021). Therefore, the following hypothesis is proposed:

H$_1$: External pressure has a positive effect on financial statement fraud

Financial targets represent performance goals established by management or the board of directors and are often linked to managerial compensation, bonuses, and incentive schemes. According to SAS No. 99, the pressure to achieve predetermined financial targets may encourage management to manipulate earnings so that the reported financial performance aligns with analysts' forecasts or shareholders' expectations. Several studies have indicated that higher financial targets increase the pressure on management, thereby increasing the likelihood of financial statement fraud. Accordingly, the second hypothesis is formulated as follows:

H$_2$: Financial targets have a positive effect on financial statement fraud

3. Methodology

This study aims to analyze the effects of external pressure and financial targets on financial statement fraud. The research variables consist of external pressure and financial targets as independent variables, and financial statement fraud as the dependent variable (Kane, Wicks, Lawal, Raut, & Mahady, 2022). The study was conducted on automotive sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. This study employed a quantitative descriptive method, using a statistical approach to examine the relationships among variables. The unit of analysis in this study is the audited and published annual financial statements of automotive subsector manufacturing companies during the observation period. The research population includes all financial statements of automotive subsector manufacturing companies listed on the IDX from 2020 to 2024 (Creswell, 2003).

The sample was selected using purposive sampling based on the following criteria: (1) automotive sub-sector manufacturing companies consistently listed on the IDX during the study period; (2) companies that published complete and audited financial statements; and (3) financial statements containing data relevant to the research variables. This study uses quantitative data, with secondary data sources obtained from companies' financial statements published by the IDX and the Indonesia Stock Exchange. Data were collected through financial statement documentation. External pressure is proxied by the leverage ratio (LEV), and financial targets are proxied by Return on Assets (ROA). Financial statement fraud is measured using the Beneish M-score model, which consists of eight financial ratios. Companies are classified as engaging in fraudulent financial reporting when the M-score exceeds −2.22. The data analysis techniques included descriptive statistics, classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity tests), and multiple linear regression analysis. Hypothesis testing is conducted using the simultaneous test (F-test), partial test (t-test), and coefficient of determination (R^2) to assess the explanatory power of the independent variables on the dependent variable.

4. Results and Discussions

This study examined automotive subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024, with an initial population of 15 companies. After applying purposive sampling based on criteria such as consistent IDX listing, availability of complete audited reports, and relevant financial data, three companies were excluded due to incomplete reports, leaving a final sample of 12 companies, resulting in 60 firm-year observations. External pressure, measured by the leverage ratio (total liabilities divided by total assets), fluctuated throughout the observation period. The average leverage ratio increased from 1.654 in 2020 to 1.998 in 2022, reflecting a significant reliance on debt, and then decreased to 1.298 in 2023 and 1.274 in 2024, indicating reduced debt dependency. The highest external pressure was observed in PT Mitra Pinasthika Mustika Tbk, with a leverage ratio of 12.544 in 2022, while PT Selamat Sempurna Tbk had the lowest, with an average of 0.034. These findings highlight the considerable variation in debt usage within this sector.

4.1 Financial Target

Financial targets were measured using Return on Assets (ROA). The results reveal a declining trend in the average ROA throughout the study period. The highest average ROA was recorded in 2020 (3.617), followed by a gradual decrease to 2.604 in 2021, 2.986 in 2022, 2.809 in 2023, and reaching the lowest level in 2024 (1.388). This downward trend suggests that automotive manufacturing companies experienced decreasing profitability, likely influenced by economic uncertainty and industry challenges during the post-pandemic period. PT Astra Otoparts Tbk recorded the highest ROA value (9.179), whereas PT Multistrada Arah Sarana Tbk exhibited the lowest ROA (0.076), indicating wide disparities in financial performance.

The declining trend in ROA also underscores the broader challenges faced by the automotive manufacturing sector, particularly during the post-pandemic recovery phase. Factors such as supply chain disruptions, rising raw material costs, and changing consumer preferences likely contributed to the declining profitability observed across the sample companies. Additionally, the fluctuating ROA values between companies highlight the varying levels of resilience and operational efficiency within the sector. While some companies like PT Astra Otoparts Tbk managed to maintain relatively higher ROA, others struggled with lower returns, indicating that financial performance in this sector is not only influenced by macroeconomic conditions but also by individual company strategies, leadership decisions, and the ability to manage operational costs effectively. Understanding these dynamics will be critical for stakeholders looking to assess the long-term viability and investment potential of automotive manufacturers, especially as they navigate ongoing market uncertainties.

4.2 Financial Statement Fraud

Financial statement fraud was measured using the Beneish M-Score model, in which an M-score greater than −2.22 indicates potential fraud. The analysis reveals that, on average, companies exhibit M-Score values above the threshold, suggesting a general indication of financial statement manipulation during the period studied. The average M-Score ranged from −0.907 in 2020 to −0.393 in 2024, with an overall mean of −2.228. Companies such as PT Selamat Sempurna Tbk, PT GoodYear Indonesia Tbk, and PT Mitra

Pinasthika Mustika Tbk recorded particularly high M-Score values, indicating an elevated fraud risk. These findings indicate that financial misstatements may be influenced by operational pressure, declining profitability, and managerial incentives.

The findings suggest that companies with a higher likelihood of financial misstatements, indicated by elevated M-Scores, may be facing significant internal and external pressures that contribute to their decision to manipulate financial reports. For example, the need to meet market expectations or to mask declining financial performance may push management to adopt aggressive accounting practices. Additionally, companies with weak internal controls or inadequate governance structures are more vulnerable to such fraudulent behavior. Therefore, it is essential for organizations to strengthen their oversight mechanisms, including the role of audit committees, to detect and prevent such activities. Enhanced transparency in financial reporting and the adoption of stricter ethical standards can help mitigate the risk of financial statement fraud. Future research should explore how corporate culture, management incentives, and the role of external audits further influence the likelihood of financial misstatements, offering a more comprehensive view of the factors at play.

4.3 Classical Assumption Tests

The regression model satisfied the assumptions of normality, multicollinearity, and heteroscedasticity of the residuals. The normal probability plot indicated the presence of normally distributed residuals. Multicollinearity was not detected, as all Variance Inflation Factor (VIF) values were below 10 (VIF = 1.037). The heteroscedasticity test showed random scatter patterns, indicating homoscedasticity of the residuals. However, the Durbin–Watson value of 0.650 indicates the presence of positive autocorrelation, suggesting that error terms across periods are correlated.

Despite the regression model satisfying the assumptions of normality, multicollinearity, and heteroscedasticity, the presence of positive autocorrelation, indicated by the Durbin-Watson value of 0.650, suggests that error terms are correlated across periods. This could indicate that there is a time-series dependency, where the residuals from one period are influenced by those from previous periods. Autocorrelation in the residuals may affect the efficiency of the estimated coefficients and, in turn, the validity of the regression results. To address this issue, future research could apply time-series models, such as the Autoregressive Distributed Lag (ARDL) model or Generalized Least Squares (GLS), to account for autocorrelation and improve the accuracy of the results. Additionally, examining lag effects and incorporating more robust estimation techniques could help mitigate the potential bias caused by autocorrelation, providing more reliable insights into the relationships between the variables under study.

4.4 Regression and Hypothesis Testing Results

Multiple linear regression analysis yielded the following results:
The F-test produced an F-statistic of 2.636, which was lower than the critical value of 3.159 (sig. = 0.080). This indicates that external pressure and financial targets do not significantly affect financial statement fraud.

The t-test results are as follows:
External pressure has a positive but insignificant effect on financial statement fraud ($\beta = 0.648$; Sig. = 0.308). Financial targets had a negative but insignificant effect on financial statement fraud ($\beta = -1.272$; Sig. = 0.074). The coefficient of determination (R^2) was 0.085, indicating that only 8.5% of the variation in financial statement fraud can be explained by external pressure and financial targets, while 91.5% is explained by factors not included in the model. The empirical findings indicate that external pressure and financial targets do not significantly influence financial statement fraud among automotive manufacturing companies listed on the IDX between 2020 and 2024.

4.5 Effect of External Pressure on Financial Statement Fraud

The results demonstrate that external pressure, proxied by leverage, has a positive but insignificant relationship with financial fraud. This suggests that higher debt levels do not necessarily motivate the management to manipulate financial statements. This finding contradicts the fraud triangle and fraud diamond theories, which argue that excessive pressure increases fraud risk. That leverage does not significantly influence financial reporting fraud. One possible explanation is that creditors increasingly emphasize cash flow quality, corporate governance, and long-term relationships rather than leverage ratios alone.

As companies face growing scrutiny from creditors and regulators, there may be more emphasis on the sustainability of earnings and the quality of financial disclosures, reducing the likelihood of manipulation. Furthermore, companies with high leverage may be more inclined to focus on maintaining good relationships with creditors, ensuring that financial reporting remains transparent and trustworthy to avoid triggering defaults or covenant breaches. Thus, future research should explore other forms of external pressure, such as regulatory oversight or market competition, to better understand their influence on financial statement fraud.

4.6 Effect of Financial Target on Financial Statement Fraud

Financial targets, measured by ROA, have a negative and insignificant effect on financial statement fraud. This suggests that profitability targets do not directly trigger fraud in financial reporting. Which concluded that financial targets do not significantly affect fraud. A plausible explanation is that companies with declining profitability may prioritize operational recovery over financial manipulation, particularly under heightened regulatory and audit scrutiny.

The lack of a significant relationship between financial targets and financial statement fraud highlights the importance of broader governance mechanisms within organizations. Companies with clear ethical guidelines, strong internal controls, and effective oversight are less likely to manipulate financial statements, even when faced with profitability pressures. This suggests that a company's corporate governance framework plays a critical role in mitigating the risks associated with financial misreporting. It is possible that well-established companies with robust governance structures are better able to withstand financial pressures without resorting to fraudulent practices. Therefore, it is crucial for future research to examine how governance structures, including board independence, audit quality, and the role of internal controls, interact with financial performance targets to either prevent or enable financial reporting fraud. This will offer a more comprehensive view of the factors that influence the integrity of financial disclosures.

5. Conclusions

5.1 Conclusion

This study examines the effects of external pressure and financial targets on financial statement fraud in automotive manufacturing companies listed on the Indonesia Stock Exchange during 2020–2024. The findings indicate that both independent variables experienced noticeable fluctuations during the observation period. External pressure, measured by leverage, reached its highest average level in 2022 and declined in the subsequent years, reflecting variations in corporate debt structures. Meanwhile, financial targets, proxied by Return on Assets (ROA), showed a declining trend, with the highest average recorded in 2020 and the lowest in 2024, indicating weakening profitability in the automotive manufacturing sector.

The analysis using the Beneish M-Score model revealed that, on average, all sampled companies committed potential financial statement fraud during the study period. This suggests that the risk of financial misstatements remains a concern within the sector, particularly amid fluctuating financial performance and economic pressure. The regression analysis results demonstrate that external pressure has a positive but insignificant effect on financial statement fraud, whereas financial targets have a negative but insignificant effect. These findings indicate that, although pressure from debt levels and profitability targets exists, such factors alone are insufficient to significantly explain the occurrence of financial fraud. Therefore, other determinants beyond financial pressure and performance targets may play a more dominant role in influencing fraudulent financial reporting practices.

5.2 Research Limitations

This study is limited by its focus on automotive manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period, which may not be representative of other sectors and regions. Additionally, the use of leverage and Return on Assets (ROA) as indicators of external pressure and financial targets may not capture all relevant factors influencing financial statement fraud. Furthermore, this study relied on the Beneish M-Score model, which may have limitations in accurately detecting all instances of financial manipulation.

5.3 Suggestions and Directions for Future Research

Based on these results, future research should expand the scope of analysis to obtain more comprehensive findings. Subsequent studies should consider increasing the number of observations by including a broader range of manufacturing subsectors or extending the research period. Additionally, incorporating other fraud-related variables, such as opportunity, rationalization, corporate governance, and internal control effectiveness, may improve the model's explanatory power and provide deeper insights into the determinants of financial statement fraud. Future research could expand the scope by including a wider range of sectors and longer time frames to obtain more generalized findings. Additionally, exploring other factors, such as corporate governance, internal control mechanisms, and management behavior, could provide deeper insights into the causes of financial statement fraud. Finally, employing advanced fraud detection models and comparative analyses across different countries could enhance the robustness of the findings

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Author Contributions

MAF conceptualized the research, developed the methodology, and wrote the initial draft of the manuscript. ZZ contributed to the data collection and analysis, provided insights on the results, and revised the manuscript. RTHS provided critical feedback on the study's methodology, helped refine the analysis, and contributed to the final revision of the manuscript. All authors reviewed and approved the final version of the manuscript for submission.

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